



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

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

June 30, 2013 and 2012

(With Independent Auditors' Reports Thereon)

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

**Table of Contents**

	<b>Page</b>
Management’s Discussion and Analysis (unaudited)	1
Independent Auditors’ Report	9
Basic Financial Statements:	
Statements of Net Position – June 30, 2013 and 2012	11
Statements of Revenues, Expenses, and Changes in Net Position – Years Ended June 30, 2013 and 2012	12
Statements of Cash Flows – Years Ended June 30, 2013 and 2012	13
Notes to Basic Financial Statements	15
<b>Required Supplementary Information</b>	
1 Virginia Housing Development Authority Retiree Healthcare Plan – Schedule of Funding Progress by Plan Valuation Date (unaudited)	47
<b>Other Supplementary Information</b>	
2 Combining Schedule of Net Position – June 30, 2013	48
3 Combining Schedule of Revenues, Expenses, and Changes in Net Position – Year Ended June 30, 2013	50
4 Combining Schedule of Net Position – June 30, 2012	51
5 Combining Schedule of Revenues, Expenses, and Changes in Net Position – Year Ended June 30, 2012	53
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	54

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

Management's Discussion and Analysis

June 30, 2013 and 2012

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 years ended June 30, 2013 and 2012. Readers are encouraged to consider this information in conjunction with the Authority's basic financial statements, accompanying notes, and supplementary 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 and mortgage backed securities to investors. The notes, bonds, and other indebtedness of the Authority 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 multi-family housing projects. The Authority also funds Resources Enabling Affordable Community Housing (REACH) 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 position 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 position, 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 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, including grants, 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 Position, the Statements of Revenues, Expenses and Changes in Net Position, the Statements of Cash Flows and the accompanying notes.

The *Statements of Net Position* report 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 position, and is displayed in three components: net investment in capital assets; restricted portion of net position; and unrestricted portion of net position. Net position is restricted when external constraints are placed upon their use, such as bond indentures, legal agreements or statutes. Over time, changes in net position may serve as a useful indicator of whether the financial status of the Authority is improving or deteriorating.

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

Management's Discussion and Analysis

June 30, 2013 and 2012

The *Statements of Revenues, Expenses, and Changes in Net Position* 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 loan income, externally funded programs and other revenue sources.

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

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

## **Financial Highlights**

### ***Overview***

The Authority has sustained its loan programs and services and improved its financial condition despite continued federal intervention in the housing and capital markets, higher than normal levels of delinquencies, foreclosures and loan losses, and nominal investment earnings. Net position has increased by approximately 4% for three consecutive years, bringing total net position as of June 30, 2013 to \$2,516 million, or more than one-quarter of the total assets held by the Authority. Cited for key indicators consisting of its strong financial position, sound financial practices and experienced management, both Standard and Poor's Ratings Services (Standard & Poor's) and Moody's Investors Services (Moody's) rating agencies continue to rate the Authority with an AA+ issuer credit rating and Aa1 general obligation credit rating, respectively.

In its single family loan program, the Authority has been able, during fiscal year 2013, to offer loans at low interest rates and down-payment assistance for qualified first time homebuyers through the issuance of tax-exempt bonds and through securitization of federally insured and guaranteed loans by the issuance of Government National Mortgage Association (GNMA) securities. The Authority also offered through GNMA securitization Federal Housing Administration (FHA)-insured and Veterans Administration (VA)-guaranteed single family loans that refinanced existing FHA-insured and VA-guaranteed loans under the FHA and VA streamline refinance programs. In addition, the Authority initiated the Federal National Mortgage Association's (FNMA) Housing Finance Agency (HFA) Preferred Risk Sharing Program that allowed the Authority to finance over \$52 million of single family mortgage loans without mortgage insurance and, unlike tax-exempt bonds, permits the funding of refinancing loans and loans to borrowers who are not first time homebuyers. In its multi-family loan program, the Authority has continued to fund developments through the issuance of tax-exempt and taxable bonds.

The Authority's servicing efforts for its single family loan portfolio have been focused on working with troubled single family borrowers and mitigating potential foreclosure losses. The Authority has continued to offer borrowers various means, including loan modifications, to prevent foreclosure for otherwise responsible single family borrowers encountering financial hardships. As long as employment levels, wages, and housing values remain slow to recover in Virginia, challenges for the Authority's single family borrowers are expected to

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

Management's Discussion and Analysis

June 30, 2013 and 2012

continue. In response to higher single family loan losses, the requirements for the loss allowance for those loans have been increased. Additionally, the Authority has provided substantial support to the Commonwealth's foreclosure prevention taskforce and housing policy initiatives, and its homeownership education, underwriting and loss mitigation practices continue to help lessen delinquencies and foreclosures to levels below those for Virginia and the nation.

As part of its servicing of its multi-family loans, the Authority identifies at-risk developments in order to assess and mitigate the risk on such developments and to determine the amount to be included in the Authority's Allowance for Loan Loss for such developments. As in the case of single family loans, the Authority offers loss mitigation, including loan modifications, to mortgagors to reduce the risk of default and loss on the multi-family loans. As a result, the delinquencies and defaults on its multi-family loans have been maintained at relatively low levels.

Due to the low interest rate conditions in the market, the Authority has experienced reduced income on its nonmortgage investments. The Authority's investments are principally in high quality, short-term securities that bear low yields. As long as the market interest rates on such investments remain low, the Authority's revenues will be adversely impacted.

In summary, the Authority continues to face a challenging housing and economic environment but has been able, through capital acquisition initiatives and loss mitigation practices, to continue its lending programs and improve its financial condition despite that environment.

***Year Ended June 30, 2013***

Homeownership loan originations totaled 4,341 in FY 2013 compared to 2,866 for the same period last year, an increase of 51%. The amount of single family mortgage loan production was \$696 million, an increase of \$262 million, or 60%. Mortgage loan production increased year over year, despite a prolonged economic downturn, as Virginia recovered lost jobs at a much greater rate than the nation as a whole. Much of the increase is related to the new FNMA HFA Preferred product and the FHA and VA streamline refinancing products.

As of June 30, 2013, the Authority serviced 55,553 first and second homeownership mortgage loans with outstanding balances totaling \$5 billion. The number of loans serviced, increased since June 30, 2012 by 734 or 1.3%, primarily in the form of FHA guaranteed mortgages with corresponding second mortgages. By contrast, the outstanding loan balances decreased by \$47.2 million or 0.9% as of the same date.

In FY 2013, there were 652 foreclosures valued at \$71.2 million or 1.6% of the homeownership loan portfolio, compared to a year ago with 724 foreclosures valued at \$93.6 million or 1.87% of loan amounts. Recovery rates averaging 60.3% somewhat mitigated the impact of loan losses. Delinquency rates on the portfolio loan count of first mortgage loans averaged 11.23% for FY 2013, compared to 10.70% a year ago. Delinquency rates based on outstanding loan balances averaged 6.30% and 5.58% in FY 2013 and FY 2012, respectively.

Financing commitments for 4,321 rental housing units were made during the year, totaling \$370.8 million, compared to 4,504 units totaling \$338.7 million for the prior year. Rehabilitation of properties within the Authority's rental portfolio using taxable and tax-exempt funding and REACH subsidies and preservation of existing mortgage loans through extended period re-financings provided the majority production. The federal intervention in the housing market continues to hamper the Authority's rental housing production.

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

Management's Discussion and Analysis

June 30, 2013 and 2012

As of June 30, 2013, the Authority serviced 1,433 rental mortgage loans with outstanding balances totaling \$3.34 billion. Compared to June 30, 2012, the number of loans in the portfolio decreased by 44 while loan balances decreased \$7.1 million or 0.2%. Delinquency rates based on portfolio loan count averaged 1.38% in both FY 2013 and FY 2012. The average delinquency rates based on outstanding loan balances were 0.29% or \$9.5 million in FY 2013 compared to 0.61% or \$20.2 million in FY 2012.

***Year Ended June 30, 2012***

Homeownership loan originations totaled 2,866 in FY 2012 compared to 2,604 for the same period last year, an increase of 10.1%. The amount of single family mortgage loan production was \$434.0 million, an increase of \$41.6 million, or 10.6%. Mortgage loan production increased year over year, despite a prolonged economic recession, as Virginia recovered lost jobs at a much greater rate than the nation as a whole.

As of June 30, 2012, the Authority serviced 54,819 first and second homeownership mortgage loans with outstanding balances totaling \$5.0 billion. The number of loans serviced, net of prepayments, increased 978 or 1.8% since June 30, 2011 while outstanding loan balances decreased \$90.6 million or 1.8% as of the same date.

In FY 2012, there were 724 foreclosures valued at \$93.6 million or 1.87% of the homeownership loan portfolio, compared to a year ago with 739 foreclosures valued at \$96.6 million or 1.89% of loan amounts. Recovery rates averaging 56.2% somewhat mitigated the impact of loan losses. Delinquency rates on the portfolio loan count of first mortgage loans averaged 10.70% for FY 2012, compared to 10.29% a year ago. Delinquency rates based on outstanding loan balances averaged 5.58% and 5.72% in FY 2012 and FY 2011, respectively.

Financing commitments for 4,504 rental housing units were made during the year, totaling \$338.7 million, compared to 4,876 units totaling \$277.5 million for the prior year. Rehabilitation of properties within the Authority's rental portfolio using taxable and tax-exempt funding provided the majority production. The federal intervention in the housing market continues to hamper the Authority's rental housing production.

As of June 30, 2012, the Authority serviced 1,477 rental mortgage loans with outstanding balances totaling \$3.35 billion. Compared to June 30, 2011, the number of loans in the portfolio decreased by 27 while loan balances decreased \$10.9 million or 0.3%. Delinquency rates based on portfolio loan count averaged 1.38% and 1.85% in FY 2012 and FY 2011, respectively. The average delinquency rates based on outstanding loan balances were 0.61% or \$20.2 million in FY 2012 compared to 0.80% or \$26.5 million in FY 2011.

**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 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

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

Management's Discussion and Analysis

June 30, 2013 and 2012

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.

Mortgage and other loan receivables represent the Authority's principal assets. Mortgage loans are financed through a combination of proceeds of notes and bonds, GNMA and FNMA mortgage loan securitizations, and net position accumulated since inception. Mortgage loan payments received from mortgagors are used to pay debt service due on outstanding bond and mortgage backed securities.

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 strong long-term ratings of Aa1 from Moody's and AA+ from Standard & Poor's for its general credit rating as well as all bond indentures other than the Commonwealth Mortgage Bonds indenture, which is rated Aaa and AAA, by Moody's and Standard & Poor's, respectively. Net position is comprised of net investment in capital assets, restricted and unrestricted portions of net position. *Net investment in capital assets* represents office buildings, land, furniture and equipment, vehicles and an investment in rental property, less the outstanding applicable debt. *Restricted portion of net position* represents the portion of net position held in trust accounts for the benefit of the respective bond owners, subject to the requirements of the various bond indentures. *Unrestricted portion of net position* represents a portion of net position that has been designated for a broad range of initiatives, such as administration of the Housing Choice Voucher (HCV) program, support for REACH Virginia initiatives, contributions to bond issues, working capital, future operating and capital expenditures, and general financial support to the Authority's loan programs.

**Condensed Statements of Net Position**

(In millions)

	<b>June 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 1,132.8	681.6	1,391.1
Investments	271.9	197.4	164.2
Mortgage and other loans receivable, net	7,175.6	7,728.0	7,901.3
Other assets	141.9	174.7	187.4
Total assets	8,722.2	8,781.7	9,644.0
Notes and bonds payable, net	5,893.7	6,054.7	6,972.4
Other liabilities	312.4	321.9	353.4
Total liabilities	6,206.1	6,376.6	7,325.8
Net investment in capital assets	1.0	36.6	19.7
Restricted by bond indentures	2,379.7	2,279.5	2,154.1
Unrestricted	135.4	89.0	144.4
Total net position	\$ 2,516.1	2,405.1	2,318.2

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

Management's Discussion and Analysis

June 30, 2013 and 2012

***June 30, 2013 Compared to June 30, 2012***

Total assets decreased \$59.5 million, or 0.7% from the prior year. Cash and cash equivalents, and investments, combined, increased \$525.7 million, or 59.8% from the prior year. Mortgage and other loans receivables, net, decreased by \$552.6 million, or 7.2%, primarily as a result of securitization of loans through GNMA and FNMA and transfers of loans to Real Estate Owned (REO) status.

Total liabilities decreased \$170.5 million, or 2.7% from the prior year. Notes and bonds payable decreased \$161 million or 2.7%, due primarily to bond redemptions. For the year, the Authority issued \$656.2 million in rental housing bonds, \$160 million in homeownership mortgage bonds, and \$891.4 million in commonwealth mortgage bonds, of which \$560.0 million was short term escrow mode (STEM) bond which will become permanent within a year. A net amount of \$41.5 million on notes and lines of credit was used for the year. Bond principal pay downs and redemptions totaled \$1.9 billion, and included bond calls of \$1.6 billion. Proceeds from the rental housing bond group and the commonwealth mortgage bond group and GNMA and FNMA mortgage loan securitizations were the principal source of funding for mortgage loan originations.

Total assets exceeded total liabilities by \$2,516.1 million, representing an increase in net position of \$111 million, or 4.6% from the prior year. As of June 30, 2013, net position invested in capital assets, net of related debt, was \$1.0 million. Net position restricted by bondholders totaled \$2,379.7 million, an increase of \$100.2 million, or 4.4% from the prior year. Unrestricted net position totaled \$135.4 million, an increase of \$46.4 million, or 52.1%.

***June 30, 2012 Compared to June 30, 2011***

Total assets decreased \$862.3 million, or 8.9% from the prior year. Cash and cash equivalents, and investments, combined, decreased \$676.3 million, or 43.5% from the prior year primarily due to the pay down on the note payable to the Federal Home Loan Bank of Atlanta. Mortgage and other loans receivables, net, decreased by \$173.3 million, or 2.2%, primarily as a result of securitization of loans through GNMA and transfers of loans to REO status.

Total liabilities decreased \$949.2 million, or 13.0% from the prior year. Notes and bonds payable decreased \$917.7 million or 13.2%, due primarily to the payment of the note of the Federal Home Loan Bank of Atlanta. For the year, the Authority issued \$74.7 million in single-family homeownership bonds and \$383.9 million in rental housing bonds, converted \$112.0 million in original issue homeownership bonds, and paid down a net \$424.7 million on notes and lines of credit. Bond principal pay downs and redemptions totaled \$1,065.3 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 \$2,405.1 million, representing an increase in net position of \$86.9 million, or 3.7% from the prior year. As of June 30, 2012, net position invested in capital assets, net of related debt, was \$36.6 million. Net position restricted by bondholders totaled \$2,279.5 million, an increase of \$125.4 million, or 5.8% from the prior year. Unrestricted net position totaled \$89.0 million, a decrease of \$55.4 million, or 38.4%.



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

Management's Discussion and Analysis

June 30, 2013 and 2012

**Condensed Statements of Revenues, Expenses and Changes in Net Position**  
(In millions)

	<b>Year ended June 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Operating revenues:			
Interest on mortgage and other loans	\$ 456.2	489.3	505.1
Pass-through grants received	127.7	119.6	157.8
Housing Choice Voucher program income	6.6	36.6	72.7
Other operating revenues	54.3	44.6	26.7
	<u>644.8</u>	<u>690.1</u>	<u>762.3</u>
Total operating revenues			
Operating expenses:			
Interest on notes and bonds payable	261.1	296.1	321.3
Pass-through grants disbursed	127.7	119.6	157.8
Housing Choice Voucher program expense	8.7	39.4	70.9
Other operating expenses	156.7	165.2	131.3
	<u>554.2</u>	<u>620.3</u>	<u>681.3</u>
Total operating expenses			
Operating income	<u>90.6</u>	<u>69.8</u>	<u>81.0</u>
Nonoperating revenues (expenses):			
Investment income, net	17.9	17.8	15.3
Other nonoperating revenues (expenses)	2.5	(0.6)	0.1
	<u>20.4</u>	<u>17.2</u>	<u>15.4</u>
Total nonoperating revenues, net			
Change in net position	<u>\$ 111.0</u>	<u>87.0</u>	<u>96.4</u>

The principal determinants of the Authority's change in net position (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 interest income as well as realized and unrealized gains or losses on investments.

***Fiscal Year 2013***

Operating revenues decreased \$45.3 million or 6.6% from the prior year. The decrease was primarily attributable to the decrease in federal funding of the Housing and Urban Development HCV program (\$30.0 million) and reduced interest on mortgage and other loans which decreased \$33.1 million or 6.8%. Single family mortgage loan rates averaged 5.4% compared to 5.6% the previous year.

Operating expenses decreased \$66.1 million or 10.7% from the prior year due primarily to pass through grant disbursements in the HCV program expense which decreased (\$30.7 million) and interest expense on notes and bonds payable which decreased \$35.1 million or 11.8% from the prior year, due to a lower average interest rate

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

Management's Discussion and Analysis

June 30, 2013 and 2012

on the notes and bonds outstanding. Other operating expenses decreased \$8.5 million or 5.1% over the prior year which was primarily due to an \$8.5 million reduction in loan losses.

Nonoperating revenues, net, increased \$3.2 million from the prior year, due to the recovery of previously written off security of \$9.5 million.

***Fiscal Year 2012***

Operating revenues decreased \$72.2 million or 9.5% from the prior year. The decrease was primarily attributable to the expiration of certain federal pass-through grants (\$38.2 million) and a funding methodology change in the HCV program (\$31.5 million). Interest on mortgage and other loans decreased \$15.8 million or 3.1%. Single family mortgage loan rates averaged 5.60% compared to 5.77% the previous year.

Operating expenses decreased \$61.0 million or 9.0% from the prior year due primarily to pass through grant disbursements decrease (\$38.2 million) and HCV program expense decrease (\$31.5 million). Interest expense on notes and bonds payable decreased \$25.2 million or 7.8% from the prior year, due to a lower average interest rate on the notes and bonds outstanding. Other operating expenses consisting primarily of administrative costs increased \$33.9 million or 25.8% above last year, of which losses and expenses on other real estate owned accounted for \$18.1 million and provision for loan loss accounted for \$10.8 million.

Nonoperating revenues, net, increased \$1.8 million from the prior year, due to increased investment income of \$2.5 million that was partially offset by investment derivative activity loss of \$0.6 million.

**Other Economic Factors**

The Authority's mortgage loan financing activities are sensitive to the general level of involvement of the federal government in the housing and capital markets, 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 and the ability to securitize through GNMA and FNMA are key elements in providing the funding necessary for the Authority to continue its mortgage financing activities.

The Authority's main sources of revenues include mortgage loan interest and investment interest income. Short-term investment rates in the United States have declined sharply from a peak of approximately 5.0% in February 2007 to 0.02% in June 2013 and 0.09% in June 2012.

Delinquency and foreclosure rates in the single family loan portfolio, and to a lesser extent the multi-family loan portfolio, are influenced by unemployment and underemployment. Virginia's seasonally adjusted unemployment rate was 5.5% and 5.7% in June 2013 and 2012, respectively. Virginia underemployment rates, which include those no longer seeking employment and those employed only part-time who desire full-time work, were 11.6% and 12.0% in the twelve months ended June 30, 2013 and 2012, 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.



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## Independent Auditors' Report

The Board of Commissioners  
Virginia Housing Development Authority:

### Report on the Financial Statements

We have audited the accompanying basic financial statements of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, as of and for the years ended June 30, 2013 and 2012, and the related notes to the basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the basic financial statements referred to above present fairly, in all material respects, of the financial position of the Virginia Housing Development Authority as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.



**Other Matters**

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management’s Discussion and Analysis and Schedule of Funding Progress by Plan Valuation Dates on pages 1–8 and 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the Authority’s basic financial statements. The supplementary information included in schedules 2 through 5 on pages 48 through 53 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information included in schedules 2 through 5 on pages 48 through 53 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2013 on our consideration of the Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority’s internal control over financial reporting and compliance.

**KPMG LLP**

September 12, 2013

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

Statements of Net Position

June 30, 2013 and 2012

<b>Assets</b>	<b>2013</b>	<b>2012</b>
<b>Current assets:</b>		
Cash and cash equivalents (note 5)	\$ 1,132,830,809	681,660,584
Investments (note 5)	2,641,341	3,711,993
Derivative instruments (note 9)	1,831,652	—
Interest receivable – investments	910,913	780,537
Mortgage loans held for sale (note 1)	18,228,326	—
Mortgage and other loans receivable, net (note 4 and 5)	179,008,673	177,758,546
Interest receivable – mortgage and other loans	34,325,891	36,716,859
Other real estate owned	18,189,684	27,344,659
Other assets	10,541,162	7,429,586
Total current assets	1,398,508,451	935,402,764
<b>Noncurrent assets:</b>		
Investments (note 5)	269,323,930	193,714,399
Mortgage and other loans receivable (note 4)	7,187,276,286	7,727,739,729
Less allowance for loan loss	190,942,569	159,338,711
Less net deferred loan fees	17,976,519	18,175,026
Mortgage and other loans receivable, net	6,978,357,198	7,550,225,992
Investment in rental property, net	38,914,766	69,058,381
Property, furniture, and equipment, less accumulated depreciation and amortization of \$28,447,677 and \$25,756,219 respectively (note 6)	24,327,792	25,442,293
Unamortized bond issuance expenses	2,931,814	4,305,643
Other assets	9,911,961	3,603,369
Total noncurrent assets	7,323,767,461	7,846,350,077
Total assets	\$ 8,722,275,912	8,781,752,841
<b>Liabilities and Net Position</b>		
<b>Current liabilities:</b>		
Notes and bonds payable (note 7)	\$ 453,826,537	388,377,856
Accrued interest payable on notes and bonds	74,720,188	88,152,455
Housing Choice Voucher contributions payable	85,334	499,436
Escrows (note 8)	46,913,410	45,156,796
Derivative instruments (note 9)	—	636,387
Accounts payable and other liabilities (note 10)	21,642,151	15,410,530
Total current liabilities	597,187,620	538,233,460
<b>Noncurrent liabilities:</b>		
Bonds payable, net (note 7)	5,439,908,808	5,666,295,890
Project reserves (notes 8 and 14)	132,915,870	139,385,475
Other liabilities (notes 10, 12, and 14)	36,118,415	32,689,931
Total noncurrent liabilities	5,608,943,093	5,838,371,296
Total liabilities	6,206,130,713	6,376,604,756
<b>Net position (note 1 and 11):</b>		
Net investment in capital assets	958,436	36,610,245
Restricted by bond indentures	2,379,737,215	2,279,519,231
Unrestricted	135,449,548	89,018,609
Total net position	2,516,145,199	2,405,148,085
Total liabilities and net position	\$ 8,722,275,912	8,781,752,841

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 Position

Years ended June 30, 2013 and 2012

	<b>2013</b>	<b>2012</b>
Operating revenues:		
Interest on mortgage and other loans receivable	\$ 456,158,885	489,280,586
Pass-through grants income (note 1)	127,749,666	119,608,753
Housing Choice Voucher program income (note 1)	6,613,190	36,616,431
Investment in rental property income	10,812,861	14,314,843
Gains and recoveries on sale of other real estate owned	6,480,302	17,911,543
Gains on sale of single family mortgage loans	21,746,714	1,145,671
Other	15,268,327	11,167,701
	<b>644,829,945</b>	<b>690,045,528</b>
Total operating revenues		
Operating expenses:		
Interest on notes and bonds payable	261,052,874	296,143,802
Salaries and related employee benefits (notes 12 and 13)	35,384,061	34,530,859
General operating expenses	21,320,657	19,118,047
Note and bond expenses	441,638	393,428
Amortization of bond issuance expenses	2,000,106	843,655
Pass-through grants expenses (note 1)	127,749,666	119,608,753
Housing Choice Voucher program expenses (note 1)	8,678,837	39,416,626
External mortgage servicing expenses	2,009,193	922,512
Investment in rental property expenses	12,067,640	17,296,931
Losses and expenses on other real estate owned	51,871,163	60,204,610
Provision for loan losses (note 1)	31,603,858	31,810,763
	<b>554,179,693</b>	<b>620,289,986</b>
Total operating expenses		
Operating income	<b>90,650,252</b>	<b>69,755,542</b>
Nonoperating revenues (expenses):		
Investment income (note 10)	17,887,569	17,785,982
Unrealized gain/(loss) on derivative instruments (note 9)	2,468,039	(636,387)
Other, net	(8,746)	59,864
	<b>20,346,862</b>	<b>17,209,459</b>
Total nonoperating revenues, net		
Change in net position	<b>110,997,114</b>	<b>86,965,001</b>
Total net position, beginning of year	<b>2,405,148,085</b>	<b>2,318,183,084</b>
Total net position, end of year	<b>\$ 2,516,145,199</b>	<b>2,405,148,085</b>

See accompanying notes to basic financial statements.

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

Statements of Cash Flows  
Years ended June 30, 2013 and 2012

	<b>2013</b>	<b>2012</b>
Cash flows from operating activities:		
Cash payments for mortgage and other loans	\$ (1,073,242,701)	(648,238,035)
Principal repayments on mortgage and other loans	1,054,049,284	669,973,083
Sale of mortgage loans	530,364,341	72,511,429
Interest received on mortgage and other loans	428,752,485	478,041,449
Pass-through grants received	127,749,666	119,608,753
Pass-through grants disbursed	(127,749,666)	(119,608,753)
Housing Choice Voucher payments received	6,191,773	36,912,906
Housing Choice Voucher payments disbursed	(8,474,350)	(39,477,243)
Escrow and project reserve payments received	289,197,265	284,105,138
Escrow and project reserve payments disbursed	(293,647,996)	(310,637,522)
Other operating revenues	38,918,161	31,864,669
Cash received for loan origination fees	4,344,177	3,307,090
Cash paid for loan origination fees	(13,884,487)	(6,558,611)
Cash payments for salaries and related benefits	(34,517,658)	(34,254,766)
Cash payments for general operating expenses	(34,712,777)	(25,349,181)
Cash payments for mortgage servicing expenses	(1,083,807)	(284,290)
Proceeds from sale of other real estate owned	25,342,256	34,792,212
Disposition (Acquisition) of rental property	28,865,530	(10,590,737)
Net cash provided by operating activities	946,461,496	536,117,591
Cash flows from noncapital financing activities:		
Proceeds from issuance of notes and bonds	1,910,160,587	1,124,380,150
Principal payments on notes and bonds	(2,056,629,795)	(2,043,868,417)
Interest payments on notes and bonds	(278,778,543)	(301,033,559)
Cash payments for bond issuance expenses	(10,802,067)	(3,750,158)
Net cash used in noncapital financing activities	(436,049,818)	(1,224,271,984)
Cash flows from capital and related financing activities:		
Purchases of property, furniture, and equipment	(2,411,402)	(3,762,171)
Net cash used in capital and related financing activities	(2,411,402)	(3,762,171)
Cash flows from investing activities:		
Purchases of investments	(201,649,542)	(69,336,369)
Proceeds from sales or maturities of investments	136,909,084	45,279,551
Interest received on investments	7,910,407	6,524,054
Net cash used in investing activities	(56,830,051)	(17,532,764)
Net increase (decrease) in cash and cash equivalents	451,170,225	(709,449,328)
Cash and cash equivalents, at beginning of year	681,660,584	1,391,109,912
Cash and cash equivalents, at end of year	\$ 1,132,830,809	681,660,584

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

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	<b>2013</b>	<b>2012</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 90,650,252	69,755,542
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of property, furniture, and equipment	3,514,491	3,310,586
Other depreciation and amortization	2,000,106	843,654
Interest on notes and bonds payable	261,052,874	296,143,803
Decrease (Increase) in investment in rental property, net	30,143,615	(7,608,650)
Increase in mortgage loans held for sale	(18,228,326)	—
Decrease in mortgage and other loans receivable	539,213,316	147,608,069
Increase in allowance for loan loss	31,603,858	31,810,763
Decrease in net deferred loan fees	(198,507)	(6,106,029)
Decrease in interest receivable – mortgage and other loans	2,390,968	1,673,824
Decrease in other real estate owned	9,154,975	18,527,554
(Decrease) Increase in Housing Choice Voucher contributions payable	(414,102)	286,531
(Decrease) Increase in other assets	(9,420,168)	2,604,205
Increase in accounts payable and other liabilities	9,660,105	3,800,123
Decrease in escrows and project reserves	(4,661,961)	(26,532,384)
Net cash provided by operating activities	\$ 946,461,496	536,117,591
Supplemental disclosure of noncash activity:		
Increase in other real estate owned as a result of loan foreclosures	\$ 32,525,792	77,098,705

See accompanying notes to basic financial statements.



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

Notes to Basic Financial Statements

June 30, 2013 and 2012

**(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 financed by the proceeds of notes, bonds, or other debt obligations of the Authority or by Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA) mortgage backed securities (see Note 1 (h) below). 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.

**(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 Position, with changes in fair market value recognized in investment income in the Statements of Revenues, Expenses, and Changes in Net Position. Fair market value, obtained from third party pricing services and reviewed by management, is based on quoted market prices when available or on adjusted value in relation to observable prices on similar investments.

**(e) Derivative Instruments**

Forward sales securities commitments are utilized to hedge changes in fair value of mortgage loan inventory and commitments to originate mortgage loans. At June 30, 2013 the Authority had outstanding 23 forward sales transactions with a \$44.5 million notional amount with four

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

counterparties with concentrations and ratings (Standard & Poor's, Moody's Investors Service) as shown in note 9. The forward sales will settle by September 30, 2013. These contracts are treated as investment derivative instruments in accordance with Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

**(f) 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 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 \$7,962,860 as of June 30, 2013 and \$11,513,873 as of June 30, 2012. These investments are also tested for impairment when triggers are identified.

**(g) Mortgage loans held for sale**

Loans originated or acquired with the intent to sell on the secondary market are carried at the lower of cost or fair value. Any gains or losses on loan sales are reported on the Statements of Revenue, Expenses, and Changes in Net Position.

**(h) 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 a participant in the GNMA and FNMA Mortgage-Backed Securities (MBS) programs. Through the MBS programs, GNMA and FNMA guarantee securities that are backed by pools of mortgage loans originated or purchased by the Authority. These mortgage loan securitizations are treated as sales for accounting and reporting purposes. Upon the sale, the Authority no longer recognizes the mortgage loans receivable in the Statements of Net Position.

**(i) 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 was \$31,603,858 and \$31,810,763 for the years ended June 30, 2013 and 2012, respectively.

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

**(j) *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.

Certain costs associated with internally generated computer software are treated as capital assets in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The capitalization threshold for internally generated computer software is \$1,000,000. Once the software is ready for its intended use, these costs are amortized on a straight-line basis over the software's expected useful life of 3 to 5 years.

**(k) *Mortgage servicing rights***

The Authority pays servicing release premiums when purchasing loans from participating lenders. These premiums are capitalized at cost and amortized over the estimated life of the related mortgage loans if those are sold to either GNMA or FNMA while the Authority remains the servicer of the loans. Unamortized costs totaling \$2.5 million were included in other assets as of June 30, 2013, and there were none as of June 30, 2012.

**(l) *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.

**(m) *Other Real Estate Owned***

Other real estate owned represents current investments in single family dwellings and 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 Position.

**(n) *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. 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.

**(o) *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

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

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.

**(p) *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.

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

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

The Authority serves as an administrator for the U.S. Department of Housing and Urban Development's (HUD) Section 8 Housing Choice Voucher program, consisting of the voucher program as well as other tenant-based assistance programs. The Authority requisitions Section 8 funds, makes disbursements of funds to eligible participants, and recognizes administrative fee income. HUD changed the revenue recognition methodology, effective January 1, 2012, requiring the Authority to record a liability for the Authority's obligation for undisbursed funds to Section 8 participants. Program income and program expenses are recognized as pass-through grants, based upon the amount of allowable Housing Assistance Payments (HAP) disbursements. The Authority received and disbursed HAP funds totaling \$67,878,852 and \$32,641,758 during the years ended June 30, 2013 and 2012, respectively.

Prior to January 1, 2012, receipts and disbursements of the voucher program were recorded in totality as corresponding program income and program expense in the Statements of Revenues, Expenses and Changes in Net Position. Excess HAP or administrative funds disbursed to the Authority were recorded as revenue and unrestricted net position in the Statements of Net Position. Cumulative excess HAP funds totaled \$1,344,308 and \$2,738,104, respectively, as of June 30, 2013 and 2012. As of June 30, 2013, the administrative funds contained a \$17,414 deficit, which has been temporarily covered by the Authority. As of June 30, 2012, the administrative funds contained excess funds of \$654,437. 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.

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

As the Commonwealth's administrator for HUD's Section 8 New Construction and Substantial Rehabilitation program, the Authority requisitions Section 8 funds, makes disbursements of HAP funds to landlords of eligible multi-family developments, and recognizes administrative fee income.

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

The Authority received and disbursed pass-through grants totaling \$59,159,680 and \$69,481,674 during the years ended June 30, 2013 and 2012, respectively.

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

The Authority serves as an administrator for 33 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 \$240,400 and \$120,284 during the years ended June 30, 2013 and 2012, respectively.

**National Foreclosure Mitigation Counseling**

The Authority is a grantee of 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. As a grantee in the National Foreclosure Mitigation Counseling program, the Authority assists nonprofit agencies by distributing NeighborWorks funds administered by the Authority. The Authority received and disbursed pass-through grants totaling \$250,720 and \$326,180 during the years ended June 30, 2013 and 2012, respectively.

**Emergency Homeowners Loan Program**

The Authority is also a grantee of NeighborWorks America, for the Emergency Homeowners Loan Program which provides mortgage payment relief to eligible homeowners experiencing a decrease in income of at least 15 percent, directly resulting from involuntary unemployment or underemployment due to adverse economic conditions and/or a medical emergency. The Authority received and disbursed assistance of \$19,333 and \$142,367 during the years ended June 30, 2013 and 2012, respectively.

**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 administered the Tax Credit Exchange program, which was created by the American Recovery and Reinvestment Act of 2009. Grants were received by the Authority and issued to finance the acquisition or construction of qualified low-income housing projects. The program concluded in November 2011. The Authority received and disbursed \$14,603,896 during fiscal year 2012.

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

The Tax Credit Assistance Program (TCAP) provided 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 housing credit agencies in each state distributed these funds competitively and according to their qualified allocation plan. The program concluded in November 2011. As the housing credit administrator for the Commonwealth, the Authority received and disbursed TCAP funds totaling \$2,136,594 during fiscal year 2012.

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

(r) ***Commonwealth Priority Housing Fund***

The Commonwealth Priority Housing Fund, established by the 1988 Session of the Virginia General Assembly, uses funds provided by the Commonwealth in that Session to make 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 \$7,390,842 and \$7,960,063 as of June 30, 2013 and 2012, respectively.

(s) ***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.

(t) ***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.

(u) ***Statements of Net Position***

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

(v) ***Operating and Non-operating Revenues and Expenses***

The Authority's Statements of Revenues, Expenses, and Changes in Net Position distinguish operating revenues and expenses from non-operating 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 rental housing properties. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(w) ***New Accounting Standards***

The Authority adopted GASB statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position" effective June 30, 2013. The statement requires the use of the term "net position" rather than "net assets" and thereby changes the titles of the financial statements to the: Statement of Net Position (previously the Statement of Net Assets) and Statement of Revenues, Expenses, and Changes in Net Position (previously the Statement of

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

Revenues, Expenses, and Changes in Net Assets). The statement also created two new separate sections of the Statement of Net Position (Deferred Outflows of Resources and Deferred Inflows of Resources); however, currently the Authority has no such activity requiring the use of these new sections so they are not displayed. The statement was applied retroactively to all periods presented herein and had no effect on the Authority's net position or changes in net position for the periods presented.

In March 2012, GASB issued Statement No. 65, "Items Previously Reported as Assets and Liabilities", effective for financial statements for periods beginning after December 15, 2012. The Authority intends to adopt this statement effective July 1, 2013; therefore, changes are not effective for these financial statements presented. Once adopted, the provisions will be applied retroactively for all periods presented and will require a restatement of net position.

**(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 rental housing development projects, as well as, permanent financing for owned rental property investments.

**(c) VHDA General Purpose Bond Group**

All outstanding bonds in the VHDA General Purpose Bond Group were redeemed in January 2013. There are no anticipated future bond issuances to be made from the VHDA General Purpose Bond Group. Substantially all of the residual assets of the VHDA General Purpose Bond Group were transferred to the General Operating Accounts or the Rental Housing Bond Group where they are available for funding related housing projects.

Prior to January 2013, the proceeds of the VHDA General Purpose Bonds were used to finance construction and permanent loans on multi-family rental housing 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 dwellings, as well as, temporary financing for other single-family real estate owned.

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

(e) **Homeownership Mortgage Bond Group**

The Homeownership Mortgage bond group was established to encompass the Authority's participation in the U.S. Department of the Treasury's New Issue Bond Program, which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. The proceeds of Homeownership Mortgage Bonds are used to purchase or make long-term loans to owner occupants of single family dwellings.

(3) **Restricted Assets**

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

Restricted assets as of June 30, 2013 and 2012 were as follows:

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
Current assets:		
Cash and cash equivalents	\$ 1,121,217,031	677,983,919
Investments	—	868,227
Interest receivable – investments	393,763	540,748
Mortgage loans held for sale	18,228,326	—
Mortgage and other loans receivable	175,913,686	175,125,398
Interest receivable – mortgage and other loans	33,527,036	35,555,714
Other real estate owned	18,017,549	26,944,266
Other assets	2,400,904	4,571,911
Total current assets	1,369,698,295	921,590,183
Noncurrent assets:		
Investments	108,900,144	124,179,493
Mortgage and other loans receivable	7,100,089,586	7,634,961,349
Less allowance for loan loss	177,963,306	152,850,790
Less net deferred loan fees	17,694,764	17,745,323
Mortgage and other loans receivable, net	6,904,431,516	7,464,365,236
Investment in rental property, net	38,914,766	69,058,381
Property, furniture, and equipment, less accumulated depreciation and amortization of \$14,363,995 and \$14,580,700, respectively	15,456,398	15,456,398
Unamortized bond issuance expenses	2,442,277	3,892,310
Total noncurrent assets	7,070,145,101	7,676,951,818
Total restricted assets	\$ 8,439,843,396	8,598,542,001



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

Notes to Basic Financial Statements

June 30, 2013 and 2012

**(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 8.30%	Thirty to forty years
Rental Housing Bond Group	0% to 13.11%	Thirty to forty years
Commonwealth Mortgage Bond Group	1.13% to 10.84%	Thirty years
Homeownership Mortgage Bond Group	2.00% to 5.88%	Thirty years

Commitments to fund new loans and monies available to provide future loans were as follows at June 30, 2013:

	<u>Committed</u>	<u>Uncommitted</u>
General Operating Loan Programs	\$ 22,384,122	—
Rental Housing Bond Group	236,782,037	—
Commonwealth Mortgage Bond Group	164,498,464	25,111,302
Total	<u>\$ 423,664,623</u>	<u>25,111,302</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 June 30, 2013 and 2012, the carrying amount of the Authority's deposits was \$207,234,546 and \$72,663,980, respectively. The associated bank balance of the Authority's deposits was \$200,969,227 and \$71,414,368 at June 30, 2013 and 2012, 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, reverse repurchase agreements 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 June 30, 2013 and 2012, total cash equivalents were \$925,596,263 and \$608,996,604, respectively.

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

Investments as of June 30, 2013 and 2012 are classified in the statements of net position as follows:

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
Current investments	\$ 2,641,341	3,711,993
Noncurrent investments	269,323,930	193,714,399
Total investments	\$ 271,965,271	197,426,392

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

June 30, 2013 and 2012

As of June 30, 2013, 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>
Reverse Repurchase agreements	\$ 355,000,000	—	—	—	355,000,000
Municipal securities	10,774,722	6,348,700	—	—	17,123,422
Asset-backed securities	—	—	—	28,163,312	28,163,312
Agency-mortgage backed securities	—	—	736,038	184,368,630	185,104,668
Commercial paper	562,434,650	—	—	—	562,434,650
Corporate notes	—	49,707,250	—	—	49,707,250
Other interest-bearing securities	28,232	—	—	—	28,232
Total investments	<u>\$ 928,237,604</u>	<u>56,055,950</u>	<u>736,038</u>	<u>212,531,942</u>	<u>1,197,561,534</u>

As of June 30, 2012, 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	\$ 868,227	—	—	—	868,227
Municipal securities	13,152,766	5,063,930	—	—	18,216,696
Asset-backed securities	—	—	—	27,836,860	27,836,860
Agency-mortgage backed securities	—	—	—	160,813,609	160,813,609
U.S. government and agency securities	169,926,700	—	—	—	169,926,700
Money market securities	427,366,300	—	—	—	427,366,300
Other interest-bearing securities	1,394,604	—	—	—	1,394,604
Total investments	<u>\$ 612,708,597</u>	<u>5,063,930</u>	<u>—</u>	<u>188,650,469</u>	<u>806,422,996</u>

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

**(b) Credit Risk**

Credit risk is the risk that an issuer or other counterparties 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 June 30, 2013:

<u>Investment type</u>	<u>Amount</u>	<u>S &amp; P/ Moody's rating</u>	<u>Percentage of total investments</u>
Money Market Securities	\$ 561,934,650	P-1	46.92%
Reverse Repurchase Agreements	355,000,000	BBB-	29.64%
Agency Mortgage Backed Securities	185,104,668	Aaa	15.46%
Corporate Notes	24,878,250	A1	2.08%
Corporate Notes	24,829,000	Aa2	2.07%
Asset Backed Securities	20,204,361	Caa1	1.69%
Municipal Securities	7,165,404	NR	0.60%
Municipal Securities	5,219,482	Aaa	0.44%
Asset Backed Securities	2,438,830	Caa3	0.20%
Municipal Securities	2,263,280	Aa2	0.19%
Asset Backed Securities	2,173,507	Ca	0.18%
Municipal Securities	2,054,690	Aa1	0.17%
Asset Backed Securities	1,383,558	Caa2	0.12%
Asset Backed Securities	823,549	A1	0.07%
Asset Backed Securities	734,541	Ba2	0.06%
Money Market Securities	500,000	Aaa	0.04%
Municipal Securities	420,566	AA	0.04%
Asset Backed Securities	404,966	Baa2	0.03%
Other Interest Bearing Instruments	28,232	Aaa	0.00%
Total investments	<u>\$ 1,197,561,534</u>		<u>100.00%</u>

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

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

Activity in the property, furniture, and equipment accounts for the year ended June 30, 2013 was as follows:

	<b>Balance June 30, 2012</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Balance June 30, 2013</b>
Land	\$ 2,935,815	—	—	—	2,935,815
Building	31,118,900	—	—	—	31,118,900
Furniture and equipment	16,047,324	1,134,930	(834,445)	1,007,136	17,354,945
Motor vehicles	487,065	17,721	—	—	504,786
Construction in progress	609,408	1,258,751	—	(1,007,136)	861,023
	<u>\$ 51,198,512</u>	<u>2,411,402</u>	<u>(834,445)</u>	<u>—</u>	<u>52,775,469</u>

Activity in the related accumulated depreciation and amortization accounts during the year ended June 30, 2013 was as follows:

	<b>Balance June 30, 2012</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2013</b>
Building	\$ (15,198,296)	(777,933)	—	(15,976,229)
Furniture and equipment	(10,192,535)	(2,690,548)	823,033	(12,060,050)
Motor vehicles	(365,388)	(46,010)	—	(411,398)
	<u>\$ (25,756,219)</u>	<u>(3,514,491)</u>	<u>823,033</u>	<u>(28,447,677)</u>

Activity in the property, furniture, and equipment accounts for the year ended June 30, 2012 was as follows:

	<b>Balance June 30, 2011</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Balance June 30, 2012</b>
Land	\$ 2,935,815	—	—	—	2,935,815
Building	31,107,556	11,344	—	—	31,118,900
Furniture and equipment	13,042,276	2,255,869	(969,360)	1,718,539	16,047,324
Motor vehicles	421,688	97,979	(32,602)	—	487,065
Construction in progress	930,968	1,396,979	—	(1,718,539)	609,408
	<u>\$ 48,438,303</u>	<u>3,762,171</u>	<u>(1,001,962)</u>	<u>—</u>	<u>51,198,512</u>

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

Activity in the related accumulated depreciation and amortization accounts during the year ended June 30, 2012 was as follows:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2012</u>
Building	\$ (14,420,363)	(777,933)	—	(15,198,296)
Furniture and equipment	(8,685,510)	(2,467,153)	960,128	(10,192,535)
Motor vehicles	(332,490)	(65,500)	32,602	(365,388)
	<u>\$ (23,438,363)</u>	<u>(3,310,586)</u>	<u>992,730</u>	<u>(25,756,219)</u>

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

**(7) Notes and Bonds Payable**

Notes and bonds payable at June 30, 2013 and 2012 and changes for the year ended June 30, 2013 were as follows:

<u>Description</u>	<u>Balance at June 30, 2012</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2013</u>
(Amounts shown in thousands)				
General operating accounts:				
Revolving line of credit:				
Bank of America				
floating daily rate (rate of 1.15470% at June 30, 2013) termination date of December 1, 2013	\$ 74,500	40,500	87,500	27,500
Federal Home Loan Bank				
floating daily rate (rate of 0.220% to 0.254% at June 30, 2013) no fixed maturity	35,000	162,147	73,600	123,547
Total general operating accounts	<u>\$ 109,500</u>	<u>202,647</u>	<u>161,100</u>	<u>151,047</u>
Rental housing bond group:				
2002 Series E/F/G, dated December 19, 2002, 3.83% effective interest rate, final due date January 1, 2013	\$ 2,470	—	2,470	—
2003 Series A/B, dated April 24, 2003, 4.56% effective interest rate, final due date June 1, 2028	21,460	—	21,460	—
2003 Series C/D, dated August 5, 2003, 3.87% effective interest rate, final due date November 1, 2028	43,480	—	43,480	—
2003 Series E, dated August 5, 2003, 4.84% effective interest rate, final due date November 1, 2028	61,365	—	61,365	—
2003 Series F/G, dated December 23, 2003, 4.76% effective interest rate, final due date April 1, 2030	42,760	—	27,800	14,960
2004 Series A/B, dated March 17, 2003, 5.25% effective interest rate, final due date March 1, 2030	14,435	—	14,435	—

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

<u>Description</u>	<u>Balance at June 30, 2012</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2013</u>
		(Amounts shown in thousands)		
2004 Series C, dated April 29, 2004, 5.53% effective interest rate, final due date May 1, 2029	\$ 61,250	—	61,250	—
2004 Series D/E, dated April 29, 2004, 4.72% effective interest rate, final due date May 1, 2029	43,250	—	43,250	—
2004 Series F/G, dated September 2, 2004, 5.78% effective interest rate, final due date September 1, 2030	49,125	—	1,520	47,605
2004 Series H/I/J, dated December 16, 2004, 5.10% effective interest rate, final due date December 1, 2029	33,315	—	1,355	31,960
2005 Series A, dated April 26, 2005, 5.37% effective interest rate, final due date May 1, 2030	33,870	—	1,430	32,440
2005 Series B/C, dated April 26, 2005, 4.58% effective interest rate, final due date May 1, 2031	51,600	—	2,590	49,010
2005 Series D, dated June 14, 2005, 5.52% effective interest rate, final due date September 1, 2033	37,685	—	990	36,695
2005 Series E/F, dated June 14, 2005, 4.60% effective interest rate, final due date September 1, 2039	41,850	—	815	41,035
2005 Series G, dated October 20, 2005, 5.30% effective interest rate, final due date December 1, 2030	80,790	—	2,710	78,080
2005 Series H/I, dated October 20, 2005, 4.45% effective interest rate, final due date December 1, 2030	34,250	—	1,340	32,910
2005 Series J/K, dated December 14, 2005, 5.30% effective interest rate, final due date February 1, 2035	36,165	—	1,015	35,150



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

Notes to Basic Financial Statements

June 30, 2013 and 2012

<u>Description</u>	<u>Balance at June 30, 2012</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2013</u>
		(Amounts shown in thousands)		
2006 Series A, dated May 23, 2006, 4.89% effective interest rate, final due date April 1, 2033	\$ 7,865	—	230	7,635
2006 Series B, dated October 31, 2006, 4.68% effective interest rate, final due date November 1, 2038	22,170	—	440	21,730
2006 Series C, dated December 12, 2006, 5.95% effective interest rate, final due date January 1, 2039	43,040	—	695	42,345
2006 Series D/E/F, dated December 12, 2006, 4.52% effective interest rate, final due date January 1, 2039	77,525	—	1,595	75,930
2007 Series A, dated June 12, 2007, 6.03% effective interest rate, final due date July 1, 2039	115,920	—	1,555	114,365
2007 Series B/C, dated September 20, 2007, 6.16% effective interest rate, final due date November 1, 2038	22,535	—	415	22,120
2008 Series A, dated March 27, 2008, 5.63% effective interest rate, final due date April 1, 2038	191,285	—	191,285	—
2009 Series A, dated February 26, 2009, 6.86% effective interest rate, final due date March 1, 2039	70,775	—	1,140	69,635
2009 Series B, dated March 26, 2009, 5.53% effective interest rate, final due date June 1, 2043	28,250	—	415	27,835
2009 Series C/D, dated March 30, 2009, 5.81% effective interest rate, final due date February 1, 2021	306,780	—	28,770	278,010
2009 Series E, dated September 24, 2009, 4.72% effective interest rate, final due date October 1, 2044.	49,510	—	765	48,745

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

<u>Description</u>	<u>Balance at June 30, 2012</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2013</u>
		(Amounts shown in thousands)		
2009 Series F, dated November 25, 2009, 4.85% effective interest rate, final due date December 1, 2044	\$ 48,145	—	735	47,410
2010 Series A, dated March 23, 2010, 4.81% effective interest rate, final due date April 1, 2045	20,355	—	225	20,130
2010 Series B, dated April 27, 2010, 4.74% effective interest rate, final due date June 1, 2045	22,505	—	365	22,140
2010 Series C, dated July 28, 2010, 4.62% effective interest rate, final due date August 1, 2045	11,790	—	170	11,620
2010 Series D, dated August 26, 2010, 4.30% effective interest rate, final due date September 1, 2040	33,000	—	720	32,280
2010 Series E, dated October 7, 2010, 4.177% effective interest rate, final due date October 1, 2045	38,405	—	705	37,700
2010 Series F, dated December 2, 2010, 4.85% effective interest rate, final due date January 1, 2041	19,700	—	175	19,525
2011 Series A, dated May 24, 2011 4.93% effective interest rate, final due date May 1, 2041	11,700	—	230	11,470
2011 Series B, dated September 27, 2011, 4.21% effective interest rate, final due date October 1, 2041.	17,480	—	—	17,480
2011 Series C, dated December 8, 2011, 4.25% effective interest rate, final due date December 1, 2038	19,500	—	—	19,500
2011 Series D, dated December 8, 2011, 4.933% effective interest rate, final due date January 1, 2039	155,800	—	1,500	154,300
2011 Series E, dated December 22, 2011, 4.348% effective interest rate, final due date March 1, 2028	156,115	—	7,210	148,905

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

<u>Description</u>	<u>Balance at June 30, 2012</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2013</u>
		(Amounts shown in thousands)		
2012 Series A, dated February 28, 2012, 3.63% effective interest rate, final due date March 1, 2042	\$ 35,000	—	—	35,000
2012 Series B, dated August 21, 2012, 3.71% effective interest rate, final due date August 1, 2042.	—	114,075	—	114,075
2012 Series D dated October 30, 2012, 4.04% effective interest rate final due date October 1, 2042	—	221,925	—	221,925
2012 Series E dated November 2, 2012 3.25% effective interest rate final due date November 1, 2042	—	10,700	—	10,700
2013 Series A/B dated April 11, 2013 3.99% effective interest rate final due date April 1, 2043	—	35,105	—	35,105
2013 Series C dated May 2, 2013 3.82% effective interest rate final due date February 1, 2043	—	163,025	—	163,025
2013 Series D dated May 30, 2013 4.06% effective interest rate final due date June 1, 2043	—	111,330	—	111,330
	<u>\$ 2,214,270</u>	<u>656,160</u>	<u>528,615</u>	<u>2,341,815</u>
Unamortized premium	4,941			1,578
Total rental housing bonds	<u>\$ 2,219,211</u>			<u>2,343,393</u>
<b>VHDA General purpose bonds group:</b>				
2002 Series X/Y/Z, dated October 31, 2002, 4.87% effective interest rate, final due date January 1, 2043	\$ 152,510	—	152,510	—
2003 Series Q, dated October 30, 2003, 5.65% effective interest rate, final due date October 1, 2028	23,950	—	23,950	—

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

<u>Description</u>	<u>Balance at June 30, 2012</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2013</u>
		(Amounts shown in thousands)		
2003 Series R/S/T/U, dated October 30, 2003 4.68% effective interest rate, final due date October 1, 2038	59,540	—	59,540	—
2003 Series V, dated June 26, 2003 4.32% effective interest rate, final due date October 1, 2029	25,825	—	25,825	—
	\$ 261,825	—	261,825	—
Unamortized premium	1,756			—
Total VHDA general purpose bonds	\$ 263,581			—
Commonwealth mortgage bonds group:				
2002 Series B, dated March 20, 2002, 6.18% effective interest rate, final due date August 25, 2030	\$ 19,022	—	3,321	15,701
2002 Series E/F/G, dated December 17, 2002, 5.16% effective interest rate, final due date December 25, 2032	17,467	—	3,295	14,172
2003 Series C, dated October 1, 2003, 5.10% effective interest rate, final due date August 25, 2033	1,315	—	227	1,088
2004 Series A, dated March 18, 2004, 3.53% effective interest rate, final due date October 1, 2029	100,390	—	100,390	—
2004 Series B, dated June 10, 2004, 5.65% effective interest rate, final due date June 25, 2034	4,120	—	716	3,404
2004 Series C, dated November 2, 2004, 4.24% effective interest rate, final due date January 1, 2031	105,420	—	105,420	—
2005 Series A, dated April 21, 2005, 4.31% effective interest rate, final due date October 1, 2031	269,810	—	30,100	239,710

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

Description	Balance at June 30, 2012	Issued	Retired	Balance at June 30, 2013
		(Amounts shown in thousands)		
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	308,570	—	25,700	282,870
2006 Series A/B, dated April 27, 2006, 5.87% effective interest rate, final due date March 25, 2036	6,611	—	995	5,616
2006 Series C, dated June 8, 2006, 6.16% effective interest rate, final due date June 25, 2034	30,736	—	6,055	24,681
2006 Series D/E/F, dated July 13, 2006 4.55% effective interest rate, final due date January 1, 2033	443,505	—	66,395	377,110
2007 Series A/B/C/D, dated May 18, 2007, 4.69% effective interest rate, final due date January 1, 2036	895,810	—	192,645	703,165
2008 Series A, dated March 25, 2008, 6.06% effective interest rate, final due date March 25, 2038	57,461	—	9,464	47,997
2008 Series B, dated April 10, 2008, 6.10% effective interest rate, final due date March 25, 2038	84,358	—	12,987	71,371
2008 Series C, dated November 18, 2008, 6.40% effective interest rate, final due date June 25, 2038	33,237	—	4,928	28,309
2008 Series D/E, dated December 16, 2008, 6.09% effective interest rate, final due date January 1, 2036	180,755	—	42,855	137,900
2009 Series A, dated November 25, 2009, 4.52% effective interest rate, final due date July 1, 2029	51,750	—	—	51,750
2012 Series A, dated December 20, 2012, 2.25% effective interest rate, final due date July 1, 2026	—	790,000	715,510	74,490

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

Description	Balance at June 30, 2012	Issued	Retired	Balance at June 30, 2013
		(Amounts shown in thousands)		
2012 Series B/C (STEM), dated December 20, 2012, 3.10% effective interest rate, final due date July 1, 2039.	—	1,275,510	560,000	715,510
2013 Series B, dated May 21, 2013 3.25% effective interest rate, final due date April 25, 2042	—	101,354	1,749	99,605
	<u>2,656,457</u>	<u>1,451,354</u>	<u>1,213,362</u>	<u>2,894,449</u>
Unamortized premium	24,269			14,652
Total commonwealth mortgage bonds group	<u>\$ 2,680,726</u>			<u>2,909,101</u>
Homeownership mortgage bonds group:				
2009 Series B-1, dated February 10, 2010, 4.42% effective interest rate, final due date November 1, 2041	\$ 160,990	—	154,800	6,190
2010 Series A, dated February 10, 2010, 3.38% effective interest rate, final due date September 1, 2021	94,530	—	10,100	84,430
2009 Series B-2, dated October 29, 2010, 3.16% effective interest rate, final due date November 1, 2041	105,000	—	83,700	21,300
2010 Series B, dated October 29, 2010, 2.948% effective interest rate, final due date March 1, 2022	61,500	—	6,200	55,300
2009 Series B-3, dated June 14, 2011 3.71% effective interest rate, final due date November 1, 2041	105,000	—	88,500	16,500
2011 Series A, dated June 14, 2011 3.27% effective interest rate, final due date March 1, 2024	67,600	—	4,900	62,700
2009 Series B-4, dated September 27, 2011, 2.68% effective interest rate, final due date November 1, 2041	111,970	—	96,900	15,070

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

<u>Description</u>	<u>Balance at June 30, 2012</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2013</u>
		(Amounts shown in thousands)		
2011 Series B, dated September 27, 2011, 3.09% effective interest rate, final due date September 1, 2024	74,650	—	5,000	69,650
2013 Series A, dated March 27, 2013 2.78% effective interest rate, final due date August 25, 2042	—	160,000	1,629	158,371
	781,240	160,000	451,729	489,511
Unamortized premium	416			683
Total homeownership mortgage bonds group	\$ 781,656			490,194
Total	\$ 6,054,674			5,893,735

Notes and bonds payable at June 30, 2012 and 2011 and changes for the year ended June 30, 2012 were summarized as follows (amounts in thousands):

	<u>June 30, 2011</u>	<u>Issued</u>	<u>Retired</u>	<u>Change in unamortized premium and compound interest payable</u>	<u>June 30, 2012</u>
General operating accounts	\$ 534,171	553,865	(978,536)	—	109,500
Rental housing bond group	2,280,318	383,895	(443,615)	(1,387)	2,219,211
Homeownership mortgage bond group	723,915	186,620	(129,970)	1,091	781,656
VHDA General purpose bond group	355,623	—	(91,860)	(182)	263,581
Commonwealth mortgage bond group	3,078,343	—	(399,888)	2,271	2,680,726
Total	\$ 6,972,370	1,124,380	(2,043,869)	1,793	6,054,674

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

Current and noncurrent amounts of notes and bonds payable at June 30, 2013 and 2012 were as follows:

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
	(Amount in thousands)	
Notes and bonds payable – current	\$ 453,826	388,378
Bonds payable – noncurrent	5,439,909	5,666,296
Total	<u>\$ 5,893,735</u>	<u>6,054,674</u>

From time to time, the Authority has participated in 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 \$657,538,820 of bond refundings during the fiscal year ended June 30, 2013 and none for the year ended June 30, 2012.

The principal payment obligations and associated interest related to all note and bond indebtedness (excluding the effect of unamortized discounts and premium) commencing July 1, 2013 and thereafter are as follows:

<u>Year ending June 30</u>	<u>Original principal</u>	<u>Current interest</u>	<u>Total debt service</u>
2014	\$ 453,826,537	221,480,983	675,307,520
2015	247,530,000	213,283,313	460,813,313
2016	254,355,000	204,192,554	458,547,554
2017	258,825,000	194,784,789	453,609,789
2018	249,865,000	184,798,274	434,663,274
2019 – 2023	1,133,760,000	772,591,424	1,906,351,424
2024 – 2028	840,555,000	572,292,066	1,412,847,066
2029 – 2033	810,438,168	399,929,172	1,210,367,340
2034 – 2038	743,687,933	252,607,579	996,295,512
2039 – 2043	861,780,141	148,369,474	1,010,149,615
2044 – 2048	22,200,000	1,716,106	23,916,106
Total	<u>\$ 5,876,822,779</u>	<u>3,166,045,734</u>	<u>9,042,868,513</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, 2013 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 a margin ranging from 95 to 125 basis points per annum based upon the Authority's long-term credit ratings. The Authority is in compliance with all debt covenant requirements. At June 30, 2013 and 2012, there were \$27.5 million and \$74.5 million outstanding, respectively.



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

Notes to Basic Financial Statements

June 30, 2013 and 2012

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 on the terminated date or upon written request of the Authority may be converted into a 5 year term. At June 30, 2013 and 2012, there were no amounts outstanding under this agreement.

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 can be charged either under a floating daily rate or a fixed rate with a stated maturity not to exceed either 1 year for daily rate or twenty years for fixed rate loans. As of June 30, 2013 there were two 90 day fixed rate borrowings that ranged from 0.22% to 0.254%. The Authority is in compliance with all debt covenant requirements. At June 30, 2013 and 2012, there were \$123.5 million and \$35.0 million outstanding, respectively.

**(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 14). The Authority invests these funds and, for project reserves, allows earnings to accrue to the benefit of the mortgagor. At June 30, 2013 and 2012, these escrows and project reserves were presented in the Authority's Statements of Net Position as follows:

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
Escrows – current	\$ 46,913,410	45,156,796
Project reserves – noncurrent	132,915,870	139,385,475
Total	\$ 179,829,280	184,542,271

**(9) Derivative Instruments**

The Authority has entered into forward sales contracts for the delivery of GNMA securities in order to lock in the sales price for the securitization of certain single-family mortgage loans. The contracts offset changes in interest rates between the time of the loan reservations and the securitization of such loans into GNMA securities. These contracts are considered investment derivative instruments, such that their change in fair value is reported as investment derivative losses on the Statement of Revenues, Expenses, and Changes in Net Position.

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

The outstanding forward contracts, summarized by counterparty as of June 30, 2013, were as follows:

<u>Counterparty rating</u>	<u>Count</u>	<u>Par</u>	<u>Concentration</u>	<u>Notional amount</u>	<u>Market value</u>	<u>Fair value asset (liability)</u>
A-1/A	2	\$ 2,100,000	4.9%	\$ 2,118,965	2,056,625	62,340
A-1/A+	3	8,500,000	19.8%	8,847,234	8,367,734	479,500
Bbb3/BBB	9	12,200,000	28.4%	12,616,004	12,203,766	412,238
A-1+/AA-	9	20,100,000	46.9%	20,882,793	20,005,219	877,574
	<u>23</u>	<u>\$ 42,900,000</u>	<u>100.00%</u>	<u>\$ 44,464,996</u>	<u>42,633,344</u>	<u>1,831,652</u>

The outstanding forward contracts, summarized by counterparty as of June 30, 2012, were as follows:

<u>Counterparty rating</u>	<u>Count</u>	<u>Par</u>	<u>Concentration</u>	<u>Notional amount</u>	<u>Market value</u>	<u>Fair value asset (liability)</u>
BBB/Baa2	1	\$ 1,600,000	2.5%	\$ 1,636,500	1,652,320	(15,820)
A/A2	2	10,500,000	16.6%	10,795,312	10,909,600	(114,288)
BBB/Baa2	1	1,400,000	2.2%	1,463,219	1,488,340	(25,121)
AA-/A2	5	26,100,000	41.2%	27,553,758	27,765,110	(211,352)
A-/Baa2	2	3,300,000	5.2%	3,425,250	3,467,230	(41,980)
BBB+/A2	3	3,900,000	6.2%	4,033,126	4,128,990	(95,864)
BBB/Baa3	2	16,500,000	26.1%	17,404,688	17,536,650	(131,962)
	<u>16</u>	<u>\$ 63,300,000</u>	<u>100.00%</u>	<u>\$ 66,311,853</u>	<u>66,948,240</u>	<u>(636,387)</u>

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

**(10) 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 legislation. 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. No rebates were paid in the year ended June 30, 2013. Rebates paid during the year ended June 30, 2012 totaled \$1,809,583. Remaining liability balances were \$49,316 and \$47,173 at June 30, 2013 and 2012, respectively.

**(11) Net Position**

Net investment in capital assets, represent property, furniture, and equipment, as well as an investment in rental property, less the current outstanding applicable debt. Restricted net position represents those portions of the total net position in trust accounts established by the various bond resolutions for the benefit of the respective bond owners. Restricted net position is generally mortgage loans and funds held for placement into mortgage loans, investments, and funds held for scheduled debt service.

Unrestricted net position represents those portions of the total net position set aside for current utilization and tentative plans for future utilization of such net position. As of June 30, 2013 and 2012, such plans included funds to be available for other loans and loan commitments; for 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 position commitments include 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; coverage 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; coverage on the liability exposure of commissioners and officers; the cost of holding foreclosed property prior to resale; costs incurred with the redemption of bonds; single-family loan prepayment shortfalls; and other risks and contingencies.

**(12) Employee Benefits Plans**

The Authority incurs employment retirement savings expense under two defined contribution plans equal to between 8%-11% of full-time employees' compensation. Total retirement savings expense for the year ended June 30, 2013 and 2012 was \$2,826,678 and \$2,729,698, 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 June 30, 2013 and 2012, included in other liabilities is an employee compensated absences accrual of \$4,267,174 and \$4,261,506, respectively (note 14).

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

**(13) 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, 2013, there were approximately 58 participating retirees and spouses and 297 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, 2013 of \$447,428 is approximately 1.8% of covered payroll.

The actuarially determined values for disclosure in accordance with GASB 45 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, 2008	\$ —	753,288	—	—	12.41	753,288
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
June 30, 2012	(8,913)	504,032	(557)	437	21.04	503,912
June 30, 2013	(559,731)	447,428	(34,983)	(26,599)	21.04	439,044

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

The OPEB cost to the Authority and its contributions and changes in the RHC plan for fiscal years 2008 through 2013 are as follows:

<u>Fiscal year-end</u>	<u>Beginning net OPEB obligation (asset)</u>	<u>Annual OPEB cost</u>	<u>Contribution</u>	<u>Change in net OPEB obligation (asset)</u>	<u>Net OPEB obligation (asset) balance</u>
June 30, 2008	\$ —	753,288	(783,026)	(29,738)	(29,738)
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)
June 30, 2012	(8,913)	503,912	(1,054,730)	(550,818)	(559,731)
June 30, 2013	(559,731)	439,044	(1,116,444)	(677,400)	(1,237,131)

For the year ended June 30, 2013, the Authority's Annual OPEB cost was \$439,044; the percentage of Annual OPEB Cost Contribution was 254%; and the ending Net OPEB asset was \$1,237,131. For the year ended June 30, 2012, the Authority's Annual OPEB cost was \$503,912; the percentage of Annual OPEB Cost Contribution was 209%; and the ending Net OPEB asset was \$559,731.

As of December 31, 2012, the unfunded actuarial accrued liability (UAAL) for benefits was \$78,221. The covered payroll (annual payroll of active employees covered by the RHC) was \$25,286,960 and the ratio of the UAAL to the covered payroll was 0.3%. As of December 31, 2012, the actuarial value of net assets held by the RHC Trust was \$16,224,392, the actuarial accrued liability was \$16,302,613, and the funded ratio was 99.5%.

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 8.0% initially for 2012, reduced by decrements to an ultimate rate of 5.0% after 6 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The unfunded actuarial accrued liability was amortized over 30 years in calculating the 2012-13 fiscal year annual required contribution.

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.

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

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

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the year ended June 30, 2013 was as follows:

	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance at June 30, 2013</u>
Project reserves	\$ 139,385,475	49,510,279	55,979,884	132,915,870
Commonwealth Priority Housing				
Fund liability	7,835,136	94,695	707,622	7,222,209
Other liabilities	20,593,289	23,341,208	19,305,465	24,629,032
Compensated absences payable	<u>4,261,506</u>	<u>1,729,938</u>	<u>1,724,270</u>	<u>4,267,174</u>
Total	<u>\$ 172,075,406</u>	<u>74,676,120</u>	<u>77,717,241</u>	<u>169,034,285</u>

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the year ended June 30, 2012 was as follows:

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance at June 30, 2012</u>
Project reserves	\$ 166,442,678	46,586,914	73,644,117	139,385,475
Commonwealth Priority Housing				
Fund liability	8,005,328	7,536,110	7,706,302	7,835,136
Other liabilities	16,954,686	21,047,469	17,408,866	20,593,289
Compensated absences payable	<u>4,050,459</u>	<u>2,156,124</u>	<u>1,945,077</u>	<u>4,261,506</u>
Total	<u>\$ 195,453,151</u>	<u>77,326,617</u>	<u>100,704,362</u>	<u>172,075,406</u>

**(15) Troubled Debt Restructuring**

Restructuring a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The Authority makes every effort to work with borrowers and grants concessions to debtors if the probability of payment from the debtor increases. As of June 30, 2013 and June 30, 2012, the Authority has granted the following concessions to debtors, which are considered troubled debt restructuring. There are no commitments to lend additional resources to debtors who had a trouble debt restructuring.

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

<b>Single Family Loans</b>	<b>For the year ended June 30, 2013</b>	<b>For the year ended June 30, 2012</b>
Aggregated recorded balance	\$ 35,142,883	23,798,526
Number of loans	206	139
Gross Interest revenue if loans had been current	\$ 2,152,925	1,258,495
Interest revenue included in changes in net position	\$ 1,489,004	798,462
<b>Multi Family Loans</b>	<b>For the year ended June 30, 2013</b>	<b>For the year ended June 30, 2012</b>
Aggregated recorded balance	\$ 3,688,700	3,688,700
Number of loans	3	3
Gross Interest revenue if loans had been current	\$ 208,341	144,340
Interest revenue included in changes in net position	\$ 80,136	53,424

**(16) 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.

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

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

the Authority does not expect such amounts, if any, to be material in relation to its basic 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 these 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.

**(17) Subsequent Events**

In addition to scheduled issuances and redemptions, the Authority made issuances and redemptions of notes and bonds payable subsequent to June 30, 2013 as follows:

	<u>Issuance/ redemption date</u>	<u>Amount</u>
Issues:		
Rental Housing Bonds 2013 Series E Non-AMT	July 11, 2013	\$ 20,750,000
Bank of America, N.A., Revolving Credit Agreement	July 24, 2013	3,000,000
Rental Housing Bonds 2013 Series F Non-AMT	October 10, 2013	58,435,000
Redemptions:		
Homeownership mortgage Bonds 2009 B-1	July 1, 2013	6,190,000
Homeownership mortgage Bonds 2009 B-2	July 1, 2013	21,300,000
Homeownership mortgage Bonds 2009 B-3	July 1, 2013	16,500,000
Homeownership mortgage Bonds 2009 B-4	July 1, 2013	15,070,000
Remarking		
CMB 2012 Series C Non-AMT Subseries C-5	July 30, 2013	90,000,000



**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

Year ended June 30, 2013

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability	Unfunded actuarial accrued liability	Funded ratio	Covered payroll	Unfunded as a percent of covered payroll
December 31, 2008	\$ 8,631,596	10,747,191	2,115,595	80.3%	\$ 20,479,198	10.3%
December 31, 2009	7,880,680	12,016,655	4,135,976	65.6	21,830,868	18.9
December 31, 2010	10,333,985	16,280,849	5,946,864	63.5	22,527,041	26.4
December 31, 2011	12,337,427	17,797,668	5,460,241	69.3	22,973,051	23.8
December 31, 2012	13,653,900	15,158,055	1,504,155	90.1	24,701,597	6.1
December 31, 2013	16,224,392	16,302,613	78,221	99.5	25,286,960	0.3

The required schedule of funding progress presents multi-year 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, 2012, the unfunded actuarial accrued liability (UAAL) for benefits was \$78,221. The covered payroll (annual payroll of active employees covered by the RHC) was \$25,286,960 and the ratio of the UAAL to the covered payroll was 0.3%. As of December 31, 2012, the actuarial value of net assets held by the RHC Trust was \$16,224,392, the actuarial accrued liability was \$16,302,613, and the funded ratio was 99.5%. As of June 30, 2013, the RHC Trust had \$17,337,066 in net assets. As of June 30, 2012, the RHC Trust had \$14,241,647 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 December 31, 2012 actuarial assumptions include a 6.25% long term investment rate of return per annum and a 3.5% payroll growth rate. The projected healthcare cost trend is 8.0% initially, reduced by decrements to an ultimate rate of 5.0% after 6 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 2013 ARC.

See accompanying independent auditors' report.

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

## Combining Schedule of Net Position

June 30, 2013

Assets	General Operating Accounts	Rental Housing Bond Group	Commonwealth Mortgage Bond Group	Home- ownership Bond Group	Total
Current assets:					
Cash and cash equivalents	\$ 198,888,063	181,932,256	682,185,154	69,825,336	1,132,830,809
Investments	2,641,341	—	—	—	2,641,341
Derivative instruments	—	—	1,831,652	—	1,831,652
Interest receivable – investments	519,489	28,146	354,629	8,649	910,913
Mortgage loans held for sale	—	—	18,228,326	—	18,228,326
Mortgage and other loans receivable	3,094,987	79,673,045	84,149,527	12,091,114	179,008,673
Interest receivable – mortgage and other loans	829,711	17,673,609	14,337,241	1,485,330	34,325,891
Other real estate owned	194,603	6,383,837	11,531,344	79,900	18,189,684
Other assets	8,692,972	342,969	1,505,221	—	10,541,162
Total current assets	<u>214,861,166</u>	<u>286,033,862</u>	<u>814,123,094</u>	<u>83,490,329</u>	<u>1,398,508,451</u>
Noncurrent assets:					
Investments	172,620,777	5,156,263	87,780,605	3,766,285	269,323,930
Mortgage and other loans receivable	99,171,867	3,133,757,480	3,500,811,975	453,534,964	7,187,276,286
Less allowance for loan loss	12,979,263	50,037,857	121,173,236	6,752,213	190,942,569
Less (plus) net deferred loan fees	281,756	40,929,492	(19,515,035)	(3,719,694)	17,976,519
Mortgage and other loans receivable, net	<u>85,910,848</u>	<u>3,042,790,131</u>	<u>3,399,153,774</u>	<u>450,502,445</u>	<u>6,978,357,198</u>
Investment in rental property, net	—	38,914,766	—	—	38,914,766
Property, furniture, and equipment, less accumulated depreciation and amortization of \$28,447,677	8,871,394	15,456,398	—	—	24,327,792
Unamortized bond issuance expenses	489,537	47,514	1,054,034	1,340,729	2,931,814
Other assets	9,911,961	—	—	—	9,911,961
Total noncurrent assets	<u>277,804,517</u>	<u>3,102,365,072</u>	<u>3,487,988,413</u>	<u>455,609,459</u>	<u>7,323,767,461</u>
Total assets	<u>\$ 492,665,683</u>	<u>3,388,398,934</u>	<u>4,302,111,507</u>	<u>539,099,788</u>	<u>8,722,275,912</u>

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

Combining Schedule of Net Position

June 30, 2013

<b>Liabilities and Net Position</b>	<b>General Operating Accounts</b>	<b>Rental Housing Bond Group</b>	<b>Commonwealth Mortgage Bond Group</b>	<b>Home- ownership Bond Group</b>	<b>Total</b>
Current liabilities:					
Notes and bonds payable	\$ 151,046,767	71,375,000	142,556,770	88,848,000	453,826,537
Accrued interest payable on notes and bonds	9,698	31,382,074	40,133,276	3,195,140	74,720,188
Housing Choice Voucher contributions payable	85,334	—	—	—	85,334
Escrows	46,913,410	—	—	—	46,913,410
Accounts payable and other liabilities	13,902,404	255,066	7,484,681	—	21,642,151
Total current liabilities	<u>211,957,613</u>	<u>103,012,140</u>	<u>190,174,727</u>	<u>92,043,140</u>	<u>597,187,620</u>
Noncurrent liabilities:					
Bonds payable, net	—	2,272,017,653	2,766,544,252	401,346,903	5,439,908,808
Project reserves	132,915,870	—	—	—	132,915,870
Other liabilities	3,471,258	32,076,258	570,899	—	36,118,415
Total noncurrent liabilities	<u>136,387,128</u>	<u>2,304,093,911</u>	<u>2,767,115,151</u>	<u>401,346,903</u>	<u>5,608,943,093</u>
Total liabilities	<u>348,344,741</u>	<u>2,407,106,051</u>	<u>2,957,289,878</u>	<u>493,390,043</u>	<u>6,206,130,713</u>
Net position:					
Net investment in capital assets	8,871,394	(7,912,958)	—	—	958,436
Restricted by bond indentures	—	989,205,841	1,344,821,629	45,709,745	2,379,737,215
Unrestricted	135,449,548	—	—	—	135,449,548
Total net position	<u>144,320,942</u>	<u>981,292,883</u>	<u>1,344,821,629</u>	<u>45,709,745</u>	<u>2,516,145,199</u>
Total liabilities and net position	<u>\$ 492,665,683</u>	<u>3,388,398,934</u>	<u>4,302,111,507</u>	<u>539,099,788</u>	<u>8,722,275,912</u>

See accompanying independent auditors' report.

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

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

Year ended June 30, 2013

	<b>General Operating Accounts</b>	<b>Rental Housing Bond Group</b>	<b>VHDA General Purpose Bond Group</b>	<b>Commonwealth Mortgage Bond Group</b>	<b>Home- ownership Bond Group</b>	<b>Total</b>
Operating revenues:						
Interest on mortgage and other loans receivable	\$ 4,149,884	220,400,992	11,811,047	191,193,702	28,603,260	456,158,885
Pass-through grants income	127,749,666	—	—	—	—	127,749,666
Housing Choice Voucher program income	6,613,190	—	—	—	—	6,613,190
Investment in rental property income	—	10,812,861	—	—	—	10,812,861
Gains and recoveries on sale of other real estate owned	12,281	1,864,199	52,529	4,551,293	—	6,480,302
Gains on sale of single family mortgage loans	—	—	—	10,708,851	11,037,863	21,746,714
Other	12,269,855	2,047,491	850,196	100,785	—	15,268,327
<b>Total operating revenues</b>	<b>150,794,876</b>	<b>235,125,543</b>	<b>12,713,772</b>	<b>206,554,631</b>	<b>39,641,123</b>	<b>644,829,945</b>
Operating expenses:						
Interest on notes and bonds payable	816,855	112,968,616	2,544,599	119,695,781	25,027,023	261,052,874
Salaries and related employee benefits	35,384,061	—	—	—	—	35,384,061
General operating expenses	21,320,657	—	—	—	—	21,320,657
Note and bond expenses	441,638	—	—	—	—	441,638
Amortization of bond issuance expenses	83,042	502,432	1,002,734	366,055	45,843	2,000,106
Pass-through grants expenses	127,749,666	—	—	—	—	127,749,666
Housing Choice Voucher program expenses	8,678,837	—	—	—	—	8,678,837
External mortgage servicing expenses	1,831,756	376	456	176,605	—	2,009,193
Investment in rental property expenses	—	12,067,640	—	—	—	12,067,640
Losses and expenses on other real estate owned	1,957,228	15,135,900	1,325,145	33,117,936	334,954	51,871,163
Provision for loan losses	6,445,181	5,545,763	(11,346,108)	27,523,110	3,435,912	31,603,858
<b>Total operating expenses</b>	<b>204,708,921</b>	<b>146,220,727</b>	<b>(6,473,174)</b>	<b>180,879,487</b>	<b>28,843,732</b>	<b>554,179,693</b>
<b>Operating income (expense)</b>	<b>(53,914,045)</b>	<b>88,904,816</b>	<b>19,186,946</b>	<b>25,675,144</b>	<b>10,797,391</b>	<b>90,650,252</b>
Nonoperating revenues (expenses):						
Investment income (loss)	12,087,640	9,825,369	50,939	(4,440,433)	364,054	17,887,569
Investment gain on derivative instruments	—	—	—	2,468,039	—	2,468,039
Other, net	(8,746)	—	—	—	—	(8,746)
<b>Total nonoperating revenues, net</b>	<b>12,078,894</b>	<b>9,825,369</b>	<b>50,939</b>	<b>(1,972,394)</b>	<b>364,054</b>	<b>20,346,862</b>
<b>Income (loss) before transfers</b>	<b>(41,835,151)</b>	<b>98,730,185</b>	<b>19,237,885</b>	<b>23,702,750</b>	<b>11,161,445</b>	<b>110,997,114</b>
Transfers between funds						
Change in net position	87,151,589	81,787,824	(202,597,320)	17,214,184	16,443,723	—
<b>Change in net position</b>	<b>45,316,438</b>	<b>180,518,009</b>	<b>(183,359,435)</b>	<b>40,916,934</b>	<b>27,605,168</b>	<b>110,997,114</b>
<b>Total net position, beginning of year</b>	<b>99,004,504</b>	<b>800,774,874</b>	<b>183,359,435</b>	<b>1,303,904,695</b>	<b>18,104,577</b>	<b>2,405,148,085</b>
<b>Total net position, at end of year</b>	<b>\$ 144,320,942</b>	<b>981,292,883</b>	<b>—</b>	<b>1,344,821,629</b>	<b>45,709,745</b>	<b>2,516,145,199</b>

See accompanying independent auditors' report.

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

Combining Schedule of Net Position

June 30, 2012

Assets	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home- ownership Bond Group	Total
Current assets:						
Cash and cash equivalents	\$ 201,837,095	101,417,693	62,294,154	235,113,444	80,998,198	681,660,584
Investments	2,843,766	—	868,227	—	—	3,711,993
Interest receivable – investments	242,445	31,280	20,631	455,286	30,895	780,537
Mortgage and other loans receivable	2,633,149	63,178,464	20,037,400	76,014,477	15,895,056	177,758,546
Interest receivable – mortgage and other loans	1,193,692	16,716,270	1,822,425	14,709,581	2,274,891	36,716,859
Other real estate owned	422,219	6,146,286	1,981,499	18,794,655	—	27,344,659
Other assets	3,140,655	475,815	856,155	2,956,961	—	7,429,586
Total current assets	<u>212,313,021</u>	<u>187,965,808</u>	<u>87,880,491</u>	<u>348,044,404</u>	<u>99,199,040</u>	<u>935,402,764</u>
Noncurrent assets:						
Investments	72,900,400	—	—	120,813,999	—	193,714,399
Mortgage and other loans receivable	105,481,759	2,909,512,751	365,158,342	3,646,920,776	700,666,101	7,727,739,729
Less allowance for loan loss	6,487,921	44,492,094	11,392,269	93,650,126	3,316,301	159,338,711
Less net deferred loan fees	429,704	38,369,553	1,652,336	(16,256,763)	(6,019,804)	18,175,026
Mortgage and other loans receivable, net	<u>98,564,134</u>	<u>2,826,651,104</u>	<u>352,113,737</u>	<u>3,569,527,413</u>	<u>703,369,604</u>	<u>7,550,225,992</u>
Investment in rental property, net	—	61,862,053	7,196,328	—	—	69,058,381
Property, furniture, and equipment, less accumulated depreciation and amortization of \$25,756,219	9,985,895	7,029,786	8,426,612	—	—	25,442,293
Unamortized bond issuance expenses	413,332	452,821	1,002,734	1,096,928	1,339,828	4,305,643
Other assets	3,603,369	—	—	—	—	3,603,369
Total noncurrent assets	<u>185,467,130</u>	<u>2,895,995,764</u>	<u>368,739,411</u>	<u>3,691,438,340</u>	<u>704,709,432</u>	<u>7,846,350,077</u>
Total assets	<u>\$ 397,780,151</u>	<u>3,083,961,572</u>	<u>456,619,902</u>	<u>4,039,482,744</u>	<u>803,908,472</u>	<u>8,781,752,841</u>

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

Combining Schedule of Net Position

June 30, 2012

<b>Liabilities and Net Position</b>	<b>General Operating Accounts</b>	<b>Rental Housing Bond Group</b>	<b>VHDA General Purpose Bond Group</b>	<b>Commonwealth Mortgage Bond Group</b>	<b>Home- ownership Bond Group</b>	<b>Total</b>
Current liabilities:						
Notes and bonds payable	\$ 109,500,000	81,295,000	5,850,000	165,532,856	26,200,000	388,377,856
Accrued interest payable on notes and bonds	6,383	32,313,676	5,018,202	46,666,246	4,147,948	88,152,455
Housing Choice Voucher contributions payable	499,436	—	—	—	—	499,436
Escrows	45,156,796	—	—	—	—	45,156,796
Derivative instruments	—	—	—	636,387	—	636,387
Accounts payable and other liabilities	7,980,469	348,157	31,496	7,050,408	—	15,410,530
<b>Total current liabilities</b>	<b>163,143,084</b>	<b>113,956,833</b>	<b>10,899,698</b>	<b>219,885,897</b>	<b>30,347,948</b>	<b>538,233,460</b>
Noncurrent liabilities:						
Bonds payable, net	—	2,137,915,870	257,730,576	2,515,193,497	755,455,947	5,666,295,890
Project reserves	139,385,475	—	—	—	—	139,385,475
Other liabilities	(3,752,912)	31,313,995	4,630,193	498,655	—	32,689,931
<b>Total noncurrent liabilities</b>	<b>135,632,563</b>	<b>2,169,229,865</b>	<b>262,360,769</b>	<b>2,515,692,152</b>	<b>755,455,947</b>	<b>5,838,371,296</b>
<b>Total liabilities</b>	<b>298,775,647</b>	<b>2,283,186,698</b>	<b>273,260,467</b>	<b>2,735,578,049</b>	<b>785,803,895</b>	<b>6,376,604,756</b>
Net position:						
Net investment in capital assets	9,985,895	28,691,090	(2,066,740)	—	—	36,610,245
Restricted by bond indentures	—	772,083,784	185,426,175	1,303,904,695	18,104,577	2,279,519,231
Unrestricted	89,018,609	—	—	—	—	89,018,609
<b>Total net position</b>	<b>99,004,504</b>	<b>800,774,874</b>	<b>183,359,435</b>	<b>1,303,904,695</b>	<b>18,104,577</b>	<b>2,405,148,085</b>
<b>Total liabilities and net position</b>	<b>\$ 397,780,151</b>	<b>3,083,961,572</b>	<b>456,619,902</b>	<b>4,039,482,744</b>	<b>803,908,472</b>	<b>8,781,752,841</b>

See accompanying independent auditors' report.

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

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

Year ended June 30, 2012

	<b>General Operating Accounts</b>	<b>Rental Housing Bond Group</b>	<b>VHDA General Purpose Bond Group</b>	<b>Commonwealth Mortgage Bond Group</b>	<b>Home- ownership Bond Group</b>	<b>Total</b>
Operating revenues:						
Interest on mortgage and other loans	\$ 4,092,714	208,349,006	29,980,525	219,045,082	27,813,259	489,280,586
Pass-through grants income	119,608,753	—	—	—	—	119,608,753
Housing Choice Voucher program income	36,616,431	—	—	—	—	36,616,431
Investment in rental property income	—	11,206,327	3,108,516	—	—	14,314,843
Gains and recoveries on sale of other real estate owned	—	13,210,104	1,942,869	2,758,570	—	17,911,543
Gains on sale of single family mortgage loans	—	—	—	1,145,671	—	1,145,671
Other	9,491,024	850,699	780,657	45,321	—	11,167,701
Total operating revenues	<u>169,808,922</u>	<u>233,616,136</u>	<u>35,812,567</u>	<u>222,994,644</u>	<u>27,813,259</u>	<u>690,045,528</u>
Operating expenses:						
Interest on notes and bonds	1,237,449	118,053,603	14,897,691	136,776,818	25,178,241	296,143,802
Salaries and related employee benefits	34,530,859	—	—	—	—	34,530,859
General operating expenses	19,118,047	—	—	—	—	19,118,047
Note and bond expenses	393,428	—	—	—	—	393,428
Amortization of bond issuance expenses	6,250	490,506	213,138	92,657	41,104	843,655
Pass-through grants expenses	119,608,753	—	—	—	—	119,608,753
Housing Choice Voucher program expenses	39,416,626	—	—	—	—	39,416,626
External mortgage servicing expenses	921,342	—	1,170	—	—	922,512
Investment in rental property expenses	—	13,537,012	3,759,919	—	—	17,296,931
Losses and expenses on other real estate owned	806,360	7,207,017	3,136,283	48,888,867	166,083	60,204,610
Provision for loan losses	(1,907,652)	(5,083,180)	1,259,732	35,408,645	2,133,218	31,810,763
Total operating expenses	<u>214,131,462</u>	<u>134,204,958</u>	<u>23,267,933</u>	<u>221,166,987</u>	<u>27,518,646</u>	<u>620,289,986</u>
Operating income (expense)	<u>(44,322,540)</u>	<u>99,411,178</u>	<u>12,544,634</u>	<u>1,827,657</u>	<u>294,613</u>	<u>69,755,542</u>
Nonoperating revenues (losses):						
Investment income	6,372,109	314,284	116,445	10,576,532	406,612	17,785,982
Unrealized loss on derivative instruments	—	—	—	(636,387)	—	(636,387)
Other, net	59,864	—	—	—	—	59,864
Total nonoperating revenues (losses)	<u>6,431,973</u>	<u>314,284</u>	<u>116,445</u>	<u>9,940,145</u>	<u>406,612</u>	<u>17,209,459</u>
Income (loss) before transfers	<u>(37,890,567)</u>	<u>99,725,462</u>	<u>12,661,079</u>	<u>11,767,802</u>	<u>701,225</u>	<u>86,965,001</u>
Transfers between funds	<u>(17,018,712)</u>	<u>73,049,218</u>	<u>7,053,045</u>	<u>(68,110,074)</u>	<u>5,026,523</u>	<u>—</u>
Change in net position	<u>(54,909,279)</u>	<u>172,774,680</u>	<u>19,714,124</u>	<u>(56,342,272)</u>	<u>5,727,748</u>	<u>86,965,001</u>
Total net position, beginning of year	<u>153,913,783</u>	<u>628,000,194</u>	<u>163,645,311</u>	<u>1,360,246,967</u>	<u>12,376,829</u>	<u>2,318,183,084</u>
Total net position, end of year	\$ <u>99,004,504</u>	\$ <u>800,774,874</u>	\$ <u>183,359,435</u>	\$ <u>1,303,904,695</u>	\$ <u>18,104,577</u>	\$ <u>2,405,148,085</u>

See accompanying independent auditors' report.



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

The Board of Commissioners  
Virginia Housing Development Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Virginia Housing Development Authority (The Authority), a component unit of the Commonwealth of Virginia, which comprise the statement of net position as of June 30, 2013 and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated September 12, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The





results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

September 12, 2013