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, 2011 and 2010

(With Independent Auditors' Report Thereon)

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

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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, 2011 and 2010. Readers are encouraged to consider this information in conjunction with the Authority's financial statements, accompanying footnotes, and supplemental information, which follow this section.

Organization Overview

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

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

Financial Statements

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

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

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The *Statements of Revenues, Expenses, and Changes in Net Assets* identify all the Authority's revenues and expenses for the reporting period, distinguishing between operating and nonoperating activities. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through mortgage loans, externally funded programs and other revenue sources.

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

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

Financial Highlights

Overview

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

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

Since the Authority services all of its single family loans, efforts aimed at working with troubled borrowers and mitigating potential foreclosure losses have been paramount. The Authority has continued to explore avenues to prevent foreclosure for otherwise responsible borrowers encountering financial hardships beyond their control, including loan modifications. As long as employment levels remain weak in the broader economy, challenges for borrowers will continue. In response to higher loan losses, higher reserve requirements have been established. Additionally, the Authority has provided substantial support to state-wide foreclosure prevention awareness and housing policy initiatives, and its homeownership education, underwriting and loss mitigation practices continue to help restrain delinquency and foreclosure rates below those for Virginia and the nation.

Net assets have increased by more than 4% for two consecutive years, bringing total net assets as of June 30, 2011 to $2,318.2 million, or almost 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 managers, both Standard & Poor's (S&P) and Moody's rating services re-affirmed in May 2011 the Authority's AA+ issuer credit rating and Aa1 general obligation credit rating, respectively.

Year Ended June 30, 2011

Homeownership loan originations totaled 2,604 in FY 2011 compared to 4,191 for the same period last year. Mortgage loan production dropped year over year as a prolonged consequence of economic recession and conservation of available tax-exempt bond resources.

As of June 30, 2011, the Authority serviced 54,549 first and second homeownership mortgage loans with outstanding balances totaling $5.2 billion. The number of loans serviced, net of prepayments, increased 1,303 or 2.45% since June 30, 2010 while outstanding loan balances decreased $38.5 million or 0.74% as of the same date.

In FY 2011, there were 739 foreclosures valued at $96.6 million or 1.89% of the homeownership loan portfolio, compared to a year ago with 790 foreclosures valued at $86.5 million or 1.27% of loan amounts. Recovery rates averaging 65% and higher significantly mitigated the impact of loan losses. Delinquency rates on the portfolio loan count of first mortgage loans averaged 10.29% for FY 2011, compared to 9.52% a year ago. Delinquency rates based on outstanding loan balances averaged 5.72% and 5.34% in FY 2011 and FY 2010, respectively.

Financing commitments for 4,876 rental housing units were made during the year, totaling $277.5 million, compared to 4,911 units totaling $311.9 million for the prior year. Rental housing development and rehabilitation, driven by a strong demand for tax credit, tax-exempt and taxable loans, created the second-highest production for the Authority since 2005.

As of June 30, 2011 the Authority serviced 1,504 rental mortgage loans with outstanding balances totaling $3.4 billion. Compared to June 30, 2010, the number of loans in the portfolio increased by 3 while loan balances increased $42.5 million or 1.28%. Delinquency rates based on portfolio loan count averaged 1.85% and 1.34% in FY 2011 and FY 2010, respectively. The average delinquency rates based on outstanding loan balances were 0.80% or $26.5 million in FY 2011 compared to 0.61% or $19.7 million in FY 2010.

Year Ended June 30, 2010

Homeownership loan originations totaled 4,191 in FY 2010 compared to 4,259 for the same period last year. Mortgage loan production was favorably impacted by the federal Homebuyer Tax Credit program, yet remained flat year over year as a prolonged consequence of market aversion to taxable bond resources and conservation of available tax-exempt bond resources.

As of June 30, 2010, the Authority serviced 53,246 first and second homeownership mortgage loans with outstanding balances totaling $5.2 billion. The number of loans serviced, net of prepayments, increased 3,427 or 6.88% since June 30, 2009 while outstanding loan balances increased $119.8 million or 2.35% as of the same date. Delinquency rates based on the portfolio loan count of first mortgage loans averaged 9.52% for FY 2010, compared to 7.31% a year ago. Delinquency rates based on outstanding loan balances averaged 5.34% and 3.33%

in FY 2010 and FY 2009, respectively. In FY 2010, there were 648 foreclosures valued at $86.5 million or 1.66% of the homeownership loan portfolio, compared to a year ago with 341 foreclosures valued at $44.8 million or 0.89% of loan assets. Recovery rates by the Authority averaged 70% and significantly mitigated the impact of loan losses.

Financing commitments for 4,911 rental housing units were made during the year, totaling $311.9 million, compared to 3,577 units totaling $207.1 million for the prior year. Rental housing development and rehabilitation, driven by a strong demand for tax credit, tax-exempt and taxable loans, created the highest production for the Authority since 2005.

As of June 30, 2010 the Authority serviced 1,501 rental mortgage loans with outstanding balances totaling $3.3 billion. Compared to June 30, 2009, the number of loans in the portfolio increased 51 or 3.52% and the loan balances increased $71.9 million or 2.22%. Delinquency rates based on portfolio loan count averaged 1.34% and 1.08% in FY 2010 and FY 2009, respectively. The average delinquency rates based on outstanding loan balances for FY 2010 were 0.61% or $19.7 million compared to 0.18% or $5.7 million in FY 2009. In FY 2010, foreclosed rental properties valued at $19.7 million were acquired and their operations continued under the Authority's ownership and control.

Financial Analysis of the Authority

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

Investment objectives are to invest all monies at favorable rates to maximize returns while maintaining short-term liquidity and to manage investments in a prudent manner to enable the Authority to fulfill its financial commitments. Precautions are taken to minimize the risk associated with investments, including monitoring creditworthiness of the investment, as determined by ratings provided by S&P and Moody's, concentration risk, and maturity risk. The Authority does not enter into short sales or futures transactions for which a bona fide hedging purpose has not been established.

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

The largest component of the Authority's liabilities is outstanding bonds payable, the majority of which is fixed rate to maturity dates that may extend into the future as much as forty years. The Authority continues to maintain its long-term rating of Aa1 from Moody's Investors Services for its general credit rating as well as all bond indentures other than the Commonwealth Mortgage Bonds indenture, which is rated Aaa. S&P Rating Services has a rating a of AA+ for the Authority's general credit as well as all bond indentures other than the Commonwealth Mortgage Bonds indenture. The Commonwealth Mortgage Bonds are rated AAA, subject to a negative credit watch and review announced by S&P on August 8, 2011 following the downgrading of the federal government credit rating the prior week (see Note 15). Net assets are comprised of capital assets, net of related debt, restricted and unrestricted net assets. *Capital assets, net of related debt* represents office buildings, land, furniture and equipment, vehicles and an investment in rental property, less the current outstanding applicable debt. *Restricted net assets* represent the portion of net assets held in trust accounts for the benefit of the respective bond owners, subject to the requirements of the various bond indentures. *Unrestricted net assets* represent a portion of net assets that have been designated for a broad range of initiatives, such as administration of the Housing Choice Voucher program, support for REACH Virginia initiatives, contributions to bond issues and bond reserve funds, working capital, future operating and capital expenditures, and general financial support to the Authority's loan programs.

Condensed Statements of Net Assets

(In millions)

		June 30	
	2011	**2010**	**2009**
Cash and cash equivalents	$ 1,391.1	1,218.9	978.5
Investments	164.2	202.2	96.8
Mortgage loans held for sale	—	—	1.7
Mortgage and other loans receivable, net	7,901.3	8,076.2	8,141.5
Other assets	187.4	163.9	148.8
Total assets	9,644.0	9,661.2	9,367.3
Notes and bonds payable, net	6,972.4	7,067.6	6,877.0
Other liabilities	353.4	371.8	370.9
Total liabilities	7,325.8	7,439.4	7,247.9
Invested in capital assets, net of related debt	19.7	(5.7)	2.1
Restricted by bond indentures	2,154.1	2,069.2	1,970.7
Unrestricted	144.4	158.3	146.6
Net assets	$ 2,318.2	2,221.8	2,119.4

June 30, 2011 Compared to June 30, 2010

Total assets decreased $17.2 million, or 0.2% from the prior year. Cash and cash equivalents, and investments, combined, increased $134.2 million, or 9.4% from the prior year. Mortgage and other loans receivables decreased by $174.9 million, or 2.2%, as a result of declining homeownership mortgage loan production and securitization of loans through GNMA.

Total liabilities decreased $113.6 million, or 1.5% from the prior year. Notes and bonds payable decreased $95.2 million or 1.3%. For the year, the Authority issued $350 million in single-family homeownership bonds and $114.6 million in rental housing bonds, and drew a net additional $206.2 million on notes and lines of credit. Bond principal paydowns and calls totaled $771.6 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 $2,318.2 million, representing an increase in net assets of $96.4 million, or 4.3% from the prior year. As of June 30, 2011, net assets invested in capital assets, net of related debt, were $19.7 million. Net assets restricted by bondholders totaled $2,154.1 million, an increase of $84.9 million, or 4.10% from the prior year. Unrestricted net assets totaled $144.4 million, a decrease of $13.9 million, or 8.8%.

June 30, 2010 Compared to June 30, 2009

Total assets increased $293.9 million, or 3.1% from the prior year. Cash and cash equivalents, and investments, combined, increased $345.8 million, or 32.2% from the prior year. Mortgage and other loans receivables decreased by $65.3 million, or 0.8%, largely as a result of new homeownership mortgage loans securitized through GNMA.

Total liabilities increased $191.5 million, or 2.6% from the prior year. Notes and bonds payable increased $190.6 million. For the year, the Authority issued $590.3 million in single-family homeownership mortgage bonds and $145.3 million in rental housing bonds, and drew a net additional $205.4 million on lines of credit. Proceeds from bond issues in the homeownership mortgage bond group and GNMA mortgage loan securitizations were the principal source of funding for mortgage loan originations.

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Total assets exceeded total liabilities by $2,221.8 million, representing an increase in net assets of $102.4 million, or 4.8% from the prior year. As of June 30, 2010, net assets invested in capital assets, net of related debt, consisted of $46.3 million in investments in rental property, net of depreciation and amortization, and $23.5 million in property, furniture, and equipment, net of depreciation and amortization, less related bonds payable of $75.5 million. Net assets restricted by bondholders totaled $2,069.2 million, an increase of $98.5 million, or 5.0% from the prior year. Unrestricted net assets totaled $158.3 million, an increase of $11.7 million, or 8.0% from the prior year.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

(In millions)

	Year ended June 30		
	2011	**2010**	**2009**
Operating revenues:			
Interest on mortgage and other loans	$ 505.1	512.8	518.5
Pass-through grants received	157.8	128.3	69.6
Housing Choice Voucher program income	72.7	69.3	61.1
Other operating revenues	26.7	31.8	23.6
Total operating revenues	762.3	742.2	672.8
Operating expenses:			
Interest on notes and bonds payable	321.3	337.4	355.2
Pass-through grants disbursed	157.8	128.3	69.6
Housing Choice Voucher program expense	70.9	69.7	70.6
Other operating expenses	131.3	122.5	101.4
Total operating expenses	681.3	657.9	596.8
Net operating income	81.0	84.3	76.0
Nonoperating revenues:			
Investment income	15.3	18.0	1.5
Other nonoperating revenues	0.1	0.1	0.1
Total nonoperating revenues	15.4	18.1	1.6
Change in net assets	$ 96.4	102.4	77.6

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

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

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Included in investment income are $11.3 million and $41.6 million of unrealized gains for the years ended June 30, 2011 and 2010, respectively. The Authority generally holds these investments to maturity.

Fiscal Year 2011

Operating revenues increased $20.1 million or 2.7% from the prior year. The increase was primarily attributable to pass-through grants received, which increased $29.5 million, or 23.0%. The most significant increase was related to tax credit programs included in the American Recovery and Reinvestment Act of 2009 that the Authority began participating in near the end of FY 2010. Interest on mortgage and other loans decreased $7.7 million or 1.50% due to lower mortgage loan production. Single family mortgage loan rates averaged 5.77% compared to 5.90% the previous year.

Operating expenses increased $23.4 million or 3.6% from the prior year due primarily to pass through grant disbursements increase of $29.5 million. Interest expense on notes and bonds payable decreased $16.1 million or 4.8% 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 $8.8 million or 7.2% above last year. Loan loss provision and expenses accounted for $5.1 million of this increase.

Nonoperating revenues decreased $2.7 million from the prior year, due to lower unrealized investment gains of $30.3 million and offsetting lower realized investment losses of $25.4 million.

Fiscal Year 2010

Operating revenues increased $69.4 million or 10.3% from the prior year. The increase was primarily attributable to pass-through grants received, which increased $58.7 million, or 84.3%. Mortgage loan production grew at a slower pace compared to the previous year while loan payoffs increased. Mortgage rates averaged 5.13% compared to 5.67% the previous year.

Operating expenses increased $61.1 million or 10.2% from the prior year due primarily to pass through grant disbursements increase of $58.7 million. Interest expense on notes and bonds payable decreased $17.8 million or 5.0% 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 $21.1 million or 20.8% above last year. Loan loss provision and expenses accounted for $19.9 million of this increase.

Nonoperating revenues increased $16.5 million from the prior year, due to unrealized investment gains of $41.6 million less offsetting realized investment losses of $28.0 million.

Other Economic Factors

The Authority's mortgage loan financing activities are sensitive to the general level of interest rates, the interest rates and other characteristics of the Authority's loans compared to loan products available in the conventional mortgage markets, and the availability of affordable housing in the Commonwealth. The availability of long-term tax-exempt and taxable financing on favorable terms is a key element in providing the funding necessary for the Authority to continue its mortgage financing activities.

The Authority's main sources of revenues include mortgage loan activity and investment interest income. Short-term investment rates in the United States have declined sharply from approximately 5.0% in July 2007 to less than 0.04% in June 2011, and 0.55% in June 2010.

Delinquency and foreclosure rates in the single family loan portfolio, and to a lesser extent the multifamily loan portfolio, are influenced by unemployment. Virginia's seasonally adjusted unemployment rate was 6.0% and 6.9% in June 2011 and 2010, respectively.

Additional Information

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

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Independent Auditors' Report

The Board of Commissioners
Virginia Housing Development Authority:

We have audited the accompanying statements of net assets of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Housing Development Authority as of June 30, 2011 and 2010, and the respective changes in its financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Schedule of Funding Progress by Plan Valuation Date on pages 1 through 9 and page 45, respectively, are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules 2 through 5 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

September 20, 2011

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

Statements of Net Assets

June 30, 2011 and 2010

Assets		**2011**	**2010**
Current assets:			
Cash and cash equivalents (note 5)	$	1,391,109,912	1,218,877,026
Investments (note 5)		4,523,890	55,328,415
Interest receivable – investments		765,474	752,356
Mortgage and other loans receivable, net (note 4)		167,200,962	160,484,496
Interest receivable – mortgage and other loans		38,390,684	38,357,956
Other real estate owned		45,872,213	34,442,929
Other assets		10,284,872	11,821,260
Total current assets		1,658,148,007	1,520,064,438
Noncurrent assets:			
Investments (note 5)		159,697,319	146,898,208
Mortgage nd w		7,885,905,382	8,049,634,116
Less allowance for loan loss		127,527,948	106,489,448
Less net deferred loan fees		24,281,056	27,394,912
Mortgage and other loans receivable, net		7,734,096,378	7,915,749,756
Investment in rental property, net		58,338,543	46,307,536
Property, furniture, and equipment, less accumulated depreciation and amortization of $23,438,363 and $27,402,289, respectively (note 6)		24,999,940	24,499,823
Unamortized bond issuance expenses		5,364,196	6,748,748
Other assets		3,352,291	950,994
Total noncurrent assets		7,985,848,667	8,141,155,065
Total assets	$	9,643,996,674	9,661,219,503
Liabilities and Net Assets			
Current liabilities:			
Notes and bonds payable (note 7)	$	822,573,653	584,041,478
Accrued interest payable on notes and bonds		98,798,460	105,980,049
Housing Choice Voucher contributions payable (note 1)		212,905	7,552
Escrows (note 8)		44,752,270	43,051,071
Accounts payable and other liabilities (notes 5 and 9)		14,225,984	19,253,196
Total current liabilities		980,563,272	752,333,346
Noncurrent liabilities:			
Bonds payable, net (note 7)		6,149,797,167	6,483,551,357
Project reserves (notes 8 and 13)		166,442,678	174,820,180
Other liabilities (notes 5, 9, 11, and 13)		29,010,473	28,701,565
Total noncurrent liabilities		6,345,250,318	6,687,073,102
Total liabilities		7,325,813,590	7,439,406,448
Net assets (note 10):			
Invested in capital assets, net of related debt		19,680,976	(5,749,288)
Restricted by bond indentures		2,154,044,354	2,069,280,597
Unrestricted		144,457,754	158,281,746
Total net assets		2,318,183,084	2,221,813,055
Total liabilities and net assets	$	9,643,996,674	9,661,219,503

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Interest on mortgage and other loans	$ 505,126,656	512,809,147
Pass-through grants income	157,788,891	128,264,102
Housing Choice Voucher program income (note 1)	72,812,764	69,320,793
Investment in rental property income	13,199,682	13,497,393
Gains and recoveries on sale of other real estate owned	1,665,081	4,929,255
Other	11,756,579	13,371,681
Total operating revenues	762,349,653	742,192,371
Operating expenses:		
Interest on notes and bonds	321,288,073	337,386,090
Salaries and related employee benefits (note 11)	33,211,365	31,804,552
General operating expenses	18,696,125	16,904,641
Note and bond expenses	546,921	558,425
Amortization of bond issuance expenses	709,989	942,292
Pass-through grants expenses	157,788,891	128,264,102
Housing Choice Voucher program expenses (note 1)	70,943,848	69,780,762
External mortgage servicing expenses	859,849	1,350,200
Investment in rental property expenses	14,090,333	12,837,356
Losses and expenses on other real estate owned	42,148,234	32,750,041
Provision for loan losses (note 1)	21,038,500	25,331,242
Total operating expenses	681,322,128	657,909,703
Operating income, net	81,027,525	84,282,668
Nonoperating revenues:		
Investment income (note 9)	15,287,467	18,045,467
Other, net	55,037	70,938
Total nonoperating revenues	15,342,504	18,116,405
Change in net assets	96,370,029	102,399,073
Total net assets, beginning of year	2,221,813,055	2,119,413,982
Total net assets, end of year	$ 2,318,183,084	2,221,813,055

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, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash payments for mortgage and other loans	$ (647,914,371)	(843,683,349)
Principal repayments on mortgage and other loans	626,057,420	612,613,776
Sale of mortgage loans	113,206,616	235,661,425
Interest received on mortgage and other loans	499,985,667	510,869,466
Pass-through grants received	157,788,891	128,264,102
Pass-through grants disbursed	(157,788,891)	(128,264,102)
Housing Choice Voucher payments received	73,027,772	69,599,827
Housing Choice Voucher payments disbursed	(71,859,956)	(69,846,249)
Escrow and project reserve payments received	341,527,474	368,316,882
Escrow and project reserve payments disbursed	(347,998,382)	(356,111,645)
Other operating revenues	14,821,137	23,112,446
Cash received for loan origination fees	2,087,071	8,676,794
Cash paid for loan origination fees	(5,078,803)	(6,720,324)
Cash payments for salaries and related benefits	(33,004,969)	(32,727,131)
Cash payments for general operating expenses	(31,707,397)	(26,878,733)
Cash payments for mortgage servicing expenses	(2,516,194)	(1,209,897)
Proceeds from sale of other real estate owned	28,560,897	19,447,848
Investment in rental property	(13,271,658)	(24,507,411)
Net cash provided by operating activities	545,922,324	486,613,725
Cash flows from noncapital financing activities:		
Proceeds from issuance of notes and bonds	791,508,000	1,357,638,000
Principal payments on notes and bonds	(892,336,552)	(1,169,041,166)
Interest payments on notes and bonds	(319,076,252)	(339,843,392)
Cash payments for bond issuance expenses	(3,112,310)	(4,178,951)
Net cash used in noncapital financing activities	(423,017,114)	(155,425,509)
Cash flows from capital and related financing activities:		
Purchases of property, furniture, and equipment	(3,330,627)	(2,879,190)
Net cash used in capital and related financing activities	(3,330,627)	(2,879,190)
Cash flows from investing activities:		
Purchases of investments	(69,437,001)	(487,244,937)
Proceeds from sales or maturities of investments	115,752,081	394,628,125
Interest received on investments	6,343,223	4,653,044
Net cash provided by (used in) investing activities	52,658,303	(87,963,768)
Net increase in cash and cash equivalents	172,232,886	240,345,258
Cash and cash equivalents, at beginning of year	1,218,877,026	978,531,768
Cash and cash equivalents, at June 30	$ 1,391,109,912	1,218,877,026

(Continued)

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

Statements of Cash Flows

Years ended June 30, 2011 and 2010

		2011	2010
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	81,027,525	84,282,668
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation of property, furniture, and equipment		2,787,299	2,832,579
Other depreciation and amortization		709,990	3,074,002
Interest on notes and bonds		321,288,072	337,386,090
(Increase) in investment in rental property, net		(12,031,007)	(27,309,557)
Decrease in mortgage and other loans receivable		157,012,267	40,164,423
Increase in allowance for loan loss		21,038,500	25,331,242
(Decrease) increase in net deferred loan fees		(3,113,856)	1,421,242
(Increase) decrease in interest receivable – mortgage and other loans		(32,728)	1,082,480
(Increase) decrease in other real estate owned		(11,429,284)	2,321,843
Decrease in Housing Choice Voucher contributions receivable		205,353	279,034
(Increase) decrease in other assets		(766,660)	5,509,710
(Decrease) in accounts payable and other liabilities		(4,302,239)	(1,967,268)
(Decrease) increase in escrows and project reserves		(6,470,908)	12,205,237
Net cash provided by operating activities	$	545,922,324	486,613,725
Supplemental disclosure of noncash investing activity:			
Increase in other real estate owned as a result of loan foreclosures	$	82,738,794	61,002,685

See accompanying notes to basic financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The Virginia Housing Development Authority (the Authority) was created under the Virginia Housing Development Authority Act, as amended (the Act) enacted by the 1972 Session of the Virginia General Assembly. The Act empowers the Authority, among other authorized activities, to finance the acquisition, construction, rehabilitation and ownership of housing intended for occupancy or ownership, or both, by families of low or moderate income. Mortgage loans are generally made with the proceeds of notes, bonds, or other debt obligations issued by the Authority. The notes, bonds and other debt obligations do not constitute a debt or grant or loan of credit of the Commonwealth of Virginia (the Commonwealth), and the Commonwealth is not liable for the repayment of such obligations.

For financial reporting purposes, the Authority is a component unit of the Commonwealth. The accounts of the Authority, along with other similar types of funds, are combined to form the Enterprise Funds of the Commonwealth. The Authority reports all of its activities as one enterprise fund, in accordance with U.S. generally accepted accounting principles (GAAP). See note 2 for further discussion.

(b) Measurement Focus and Basis of Accounting

The Authority utilizes the economic resources measurement focus and accrual basis of accounting in preparing its basic financial statements where revenues are recognized when earned and expenses when incurred. The accounts are organized on the basis of funds and groups of funds, which are set up in accordance with the authorizing act and the various note and bond resolutions. As provided for in GAAP, the Authority has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

(c) Use of Estimates

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

(d) Investments

Investments are reported at fair market value on the Statements of Net Assets, with changes in fair market value recognized in investment income in the Statements of Revenues, Expenses, and Changes in Net Assets. Fair market value is determined by reference to published market prices and quotations from national security exchanges and securities pricing services.

(e) Investment in Rental Property

Investment in rental property represents several multi-family apartment complexes, including the related property, furniture, and equipment. These assets are recorded at cost and are depreciated 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 $14,236,447 as of June 30, 2011 and $11,645,313 as of June 30, 2010. These investments are also tested for impairment when triggers are identified.

(f) Mortgage and Other Loans Receivable

Mortgage and other loans receivable are stated at their unpaid principal balance, net of deferred loan fees and costs and an allowance for loan losses. The Authority charges loan fees to mortgagors. These fees, net of direct costs, are deferred and amortized, using the interest method, over the contractual life of the loans as an adjustment to yield. The interest method is computed on a loan-by-loan basis and any unamortized net fees on loans fully repaid or restructured are recognized as income in the year in which such loans are repaid or restructured.

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

(g) Allowance for Loan Losses

The Authority provides for losses when a specific need for an allowance is identified. The provision for loan losses charged or credited to operating expense is the amount necessary, in management's judgment, to maintain the allowance at a level it believes sufficient to cover losses in collection of loans. Estimates of future losses involve the exercise of management's judgment and assumptions with respect to future conditions. The principal factors considered by management in determining the adequacy of the allowance are the composition of the loan portfolio, historical loss experience and delinquency statistics, economic conditions, the value and adequacy of collateral, and the current level of the allowance. The provision for loan losses approximated $21,038,000 and $25,331,000 for the years ended June 30, 2011 and 2010, respectively.

(h) Property, Furniture, and Equipment

Capital assets are capitalized at cost and depreciation is provided on the straight-line basis over the estimated useful lives, which are 30 years for buildings and from 3 to 10 years for furniture and equipment. The capitalization threshold for property, furniture, and equipment was $1,000 for the years ended June 30, 2011 and 2010.

Effective July 1, 2009, the Authority implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which resulted in the capitalization of certain costs associated with internally generated computer software. 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.

(i) Bond Issuance Expense

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

(j) Other Real Estate Owned

Other real estate owned represents current investments in rental property, acquired primarily through foreclosure, and is stated at the lower of cost or fair value less estimated disposal costs. Gains and losses from the disposition of other real estate owned are reported separately in the Statements of Revenues, Expenses, and Changes in Net Assets.

(k) Notes and Bonds Payable

Notes and bonds payable are stated at their unpaid balance less any unamortized premiums or discounts. Bond premiums and discounts are amortized over the lives of the issues using the interest method. The Authority generally has the right to specially redeem bonds, without premium, upon the occurrence of certain specified events, such as the prepayment of a mortgage loan. The Authority also has the right to optionally redeem the various bonds at premiums ranging from 0% to 2%. The optional redemptions generally cannot be exercised until the bonds have been outstanding for approximately ten years. All issues generally have term bonds, which are subject to partial redemption, without premium, from mandatory sinking fund installments.

(l) Retirement Plans

The Authority has three defined contribution employees’ retirement savings plans covering substantially all employees. Retirement expense is fully funded as incurred. To the extent terminating employees are less than 100% vested in the Authority’s contributions, the unvested portion is forfeited and redistributed to the remaining participating employees.

The Authority also provides postretirement healthcare benefits under a defined benefit plan to all employees who have met the years of service requirement and who retire from the Authority on or after attaining age 55 or become permanently disabled.

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

(m) Compensated Absences

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

(n) Pass-Through Revenues and Expenses

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

As the Commonwealth's administrator for the U.S. Department of Housing and Urban Development's (HUD) Section 8 New Construction and Substantive Rehabilitation program, the Authority requisitions Section 8 funds, makes disbursements of Housing Assistance Payments (HAP) funds to landlords of eligible multi-family developments, and recognizes administrative fee income. The Authority received and disbursed pass-through grants totaling $73,281,181 and $72,052,133 during the years ended June 30, 2011 and 2010, respectively.

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

The Authority serves as an administrator for thirty HUD-approved Housing Counseling Agencies in Virginia. The Housing Counseling Assistance Program provides counseling to consumers on seeking, financing, maintaining, renting, or owning a home. The Authority received and disbursed pass-through grants totaling $133,608 and $198,121 during fiscal year 2011 and 2010, respectively.

NeighborWorks America

The Authority is an administrator for NeighborWorks America, a national nonprofit organization created by the U.S. Congress to provide financial support, technical assistance, and training for community-based revitalization efforts. Thirteen nonprofit agencies are assisted by NeighborWorks funds administered by the Authority. The Authority received and disbursed pass-through grants totaling $180,917 during fiscal year 2011 and $211,461 during fiscal year 2010, the year of the Authority's start-up with the program.

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

As the housing credit administrator for the Commonwealth, the Authority administers the Tax Credit Exchange program, which was created by the American Recovery and Reinvestment Act of 2009. Grants are received by the Authority and issued to finance the acquisition or construction of qualified low-income housing projects. The Authority received and disbursed $62,727,617 of assistance during fiscal year 2011 and $35,156,800 during fiscal year 2010.

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

The Tax Credit Assistance Program (TCAP) provides grant funding for capital investment in Low Income Housing Tax Credit (LIHTC) projects via a formula-based allocation to state housing credit allocation agencies. The Authority is the housing credit administrator in the Commonwealth. The housing credit agencies in each state distribute these funds competitively and according to their qualified allocation plan. The Authority received and disbursed $21,465,568 of assistance during fiscal year 2011 and $20,645,587 during fiscal year 2010.

(o) Housing Choice Voucher Program

As the Commonwealth's administrator for HUD's Section 8 Housing Choice Voucher program, the Authority requisitions Section 8 funds, makes disbursements of HAP funds to eligible tenants, and recognizes administrative fee income.

Upon receipt or disbursement of HAP and administrative funds related to Section 8, corresponding revenues or expenses are recorded in Housing Choice Voucher program income or Housing Choice Voucher program expense in the Statements of Revenues, Expenses and Changes in Net Assets. Housing Choice Voucher contributions receivable are stated at the balance of funds obligated and available from HUD but not yet disbursed to the Authority. Excess HAP or administrative funds disbursed to the Authority are recorded in unrestricted net assets in the Statements of Net Assets. Cumulative excess HAP and administrative funds totaled $5,299,533 and $893,204, respectively, as of June 30, 2011 and $3,041,461 and $1,282,360, respectively, as of June 30, 2010. HUD monitors the utilization of these excess funds and adjusts funding levels prospectively to assure all funds are being used to serve as many families up to the number of vouchers authorized by the program.

(p) Commonwealth Priority Housing Fund

The Commonwealth Priority Housing Fund, established by the 1988 Session of the Virginia General Assembly, uses funds provided by the state to provide loans and grants for a wide variety of housing initiatives. The Department of Housing and Community Development develops the program guidelines and the Authority acts as administrator for the Fund. The balances associated with the Commonwealth Priority Housing Fund are recorded in assets and liabilities in the amounts of $8,120,327 and $8,215,179 as of June 30, 2011 and 2010, respectively.

(q) Cash Equivalents

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

(r) Rebatable Arbitrage

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

(s) Statements of Net Assets

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

(Continued)

and unrestricted resources are available for use, the Authority's policy is to use restricted resources first, and thereafter unrestricted resources as needed.

(t) Operating and Nonoperating Revenues and Expenses

The Authority's Statements of Revenues, Expenses, and Changes in Net Assets distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally are a result from financing the acquisition, construction, rehabilitation, and ownership of housing intended for occupancy and ownership, by families of low or moderate income or as a result from the ownership of certain multi-family housing rental properties. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(u) Reclassifications

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

(2) Basis of Presentation

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

(a) General Operating Accounts

The General Operating Accounts consist of a group of accounts used to record the receipt of income not directly pledged to the repayment of specific notes and bonds and the payment of expenses related to the Authority's administrative functions.

(b) Rental Housing Bond Groups

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

(c) VHDA General Purpose Bond Group

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

(d) Commonwealth Mortgage Bond Group

The proceeds of Commonwealth Mortgage Bonds are used to purchase or make long-term loans to owner occupants of single-family dwelling units, as well as, temporary financing for other real estate owned.

(e) Homeownership Mortgage Bond Group

The Homeownership Mortgage bond group was established on December 2, 2009 and encompasses the Authority's participation in the U.S. Department of the Treasury Single Family New Issue Bond

Program, which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital.

(3) Restricted Assets

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

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

	June 30	
	2011	**2010**
Current assets:		
Cash and cash equivalents	$ 1,381,441,924	1,196,256,185
Investments	—	55,328,415
Interest receivable – investments	447,139	361,062
Mortgage and other loans receivable	164,681,060	158,423,921
Interest receivable – mortgage and other loans	37,213,059	37,352,857
Other real estate owned	45,339,820	33,997,068
Other assets	5,974,514	6,557,958
Total current assets	1,635,097,516	1,488,277,466
Noncurrent assets:		
Investments	106,991,478	101,221,076
Mortgage and other loans receivable	7,803,700,151	7,993,603,454
Less allowance for loan loss	119,132,375	103,215,124
Less net deferred loan fees	23,719,341	26,990,387
Mortgage and other loans receivable, net	7,660,848,435	7,863,397,943
Investment in rental property, net	58,338,543	45,555,554
Property, furniture, and equipment, less accumulated depreciation and amortization of $14,695,173 and $14,238,464, respectively	15,460,494	15,840,952
Unamortized bond issuance expenses	5,001,446	6,362,903
Other assets	—	190,716
Total noncurrent assets	7,846,640,396	8,032,569,144
Total restricted assets	$ 9,481,737,912	9,520,846,610

(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:

Loan program/bond group	Interest rates	Initial loan terms
General Operating Accounts	0% to 9.14%	Thirty to forty years
Rental Housing Bond Group	0% to 13.13%	Thirty to forty years
VHDA General Purpose Bond Group	0% to 13.92%	Thirty to forty years
Commonwealth Mortgage Bond Group	1.13% to 10.38%	Thirty years
Homeownership Mortgage Bond Group	2.88% to 5.88%	Thirty years

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

	Committed	Uncommitted
General Operating Loan Programs	$ 39,138,429	—
VHDA General Purpose Bond Group	4,818,288	9,612,163
Rental Housing Bond Group	84,704,481	—
Commonwealth Mortgage Bond Group	77,595,065	100,079,391
Homeownership Bond Group	—	195,360,614
Total	$ 206,256,263	305,052,168

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, 2011 and 2010, the carrying amount of the Authority's deposits was $169,508,196 and $43,317,762 respectively, and checks drawn in excess of bank balances, included in accounts payable and other liabilities were zero and $5,336,544, respectively. The associated bank balance of the Authority's deposits was $172,003,480 and $47,121,109 at June 30, 2011 and 2010, respectively. The difference between the carrying amount and the bank balance is due to outstanding checks, deposits in transit, and other reconciling items.

Cash equivalents include investments with original maturities of three months or less from date of purchase. Investments consist of U.S. government and agency securities, municipal tax-exempt securities, corporate notes, and various other investments for which there are no securities as evidence of the investment. Investments in the bond funds consist of those permitted by the various resolutions adopted by the Authority. At June 30, 2011 and 2010, total cash equivalents were $1,221,601,716 and $1,175,559,264, respectively.

(Continued)

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

		June 30	
		2011	**2010**
Current investments	$	4,523,890	55,328,415
Noncurrent investments		159,697,319	146,898,208
Total investments	$	164,221,209	202,226,623

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.

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

Investment type		**Less than 1 year**	**1 – 5 years**	**6 – 10 years**	**Over 10 years**	**Fair value**
Corporate notes	$	—	900,281	—	—	900,281
Municipal securities		10,123,945	3,483,677	—	—	13,607,622
Asset-backed securities		—	—	—	33,972,505	33,972,505
Agency-mortgage backed securities		—	—	—	116,410,801	116,410,801
Money market securities		726,732,148	—	—	—	726,732,148
Other interest-bearing securities		494,199,568	—	—	—	494,199,568
Total investments	$	1,231,055,661	4,383,958	—	150,383,306	1,385,822,925

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

Investment type	Less than 1 year	1 – 5 years	6 – 10 years	Over 10 years	Fair value
Corporate notes	$ —	921,861	—	—	921,861
Municipal securities	7,365,287	13,329,766	—	—	20,695,053
Asset-backed securities	—	—	—	40,201,724	40,201,724
Agency-mortgage backed securities	—	—	—	92,444,857	92,444,857
Money market securities	895,228,347	—	—	—	895,228,347
Other interest-bearing securities	328,294,045	—	—	—	328,294,045
Total investments	$ 1,230,887,679	14,251,627	—	132,646,581	1,377,785,887

(b) Credit Risk

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

Investment type	Amount	S & P/ Moody's rating	Percentage of total investments
Money market securities	$ 726,732,148	P-1	52.443
Other interest bearing instruments	494,199,568	Aaa	35.659
Agency mortgage backed securities	116,410,801	Aaa	8.400
Asset backed securities	18,298,642	Caa1	1.320
Asset backed securities	5,010,185	Caa2	0.362
Municipal securities	4,765,469	Aaa	0.344
Municipal securities	2,705,718	Aa1	0.195
Asset backed securities	2,514,494	Ba2	0.181
Asset backed securities	2,469,193	Ba1	0.178
Municipal securities	2,183,088	Aa2	0.158
Municipal securities	2,020,000	A2	0.146
Asset backed securities	1,703,077	Caa3	0.123
Asset backed securities	1,387,598	Ca	0.100
Asset backed securities	1,122,947	Aa3	0.081
Municipal securities	1,011,690	BBB	0.073
Asset backed securities	957,072	A2	0.069
Corporate notes	900,281	A2	0.065
Municipal securities	670,000	NR	0.048
Asset backed securities	509,290	Baa2	0.037
Municipal securities	251,658	Aa3	0.018
Asset backed securities	6	C	—
Total investments	$ 1,385,822,925		100.000

(6) Property, Furniture, and Equipment

Activity in the property, furniture, and equipment accounts for the year ended June 30, 2011 was as follows:

		Balance June 30, 2010	Additions	Disposals	Transfers	Balance June 30, 2011
Land	$	2,935,815	—	—	—	2,935,815
Building		30,681,045	426,511	—	—	31,107,556
Furniture and equipment		16,873,307	998,314	(6,794,436)	1,965,091	13,042,276
Motor vehicles		421,688	—	—	—	421,688
Construction in progress		990,257	1,905,802	—	(1,965,091)	930,968
	$	51,902,112	3,330,627	(6,794,436)	—	48,438,303

Activity in the related accumulated depreciation and amortization accounts during the year ended June 30, 2011 was as follows:

		Balance June 30, 2010	Additions	Disposals	Balance June 30, 2011
Building	$	(13,615,443)	(804,920)	—	(14,420,363)
Furniture and equipment		(13,503,934)	(1,932,801)	6,751,225	(8,685,510)
Motor vehicles		(282,912)	(49,578)	—	(332,490)
	$	(27,402,289)	(2,787,299)	6,751,225	(23,438,363)

Activity in the property, furniture, and equipment accounts for the year ended June 30, 2010 was as follows:

		Balance June 30, 2009	Additions	Disposals	Transfers	Balance June 30, 2010
Land	$	2,935,815	—	—	—	2,935,815
Building		28,734,001	48,247	—	1,898,797	30,681,045
Furniture and equipment		15,934,392	1,560,879	(621,964)	—	16,873,307
Motor vehicles		392,118	29,570	—	—	421,688
Construction in progress		1,648,560	1,240,494	—	(1,898,797)	990,257
	$	49,644,886	2,879,190	(621,964)	—	51,902,112

Activity in the related accumulated depreciation and amortization accounts during the year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Additions	Disposals	Balance June 30, 2010
Building	$ (12,873,086)	(742,357)	—	(13,615,443)
Furniture and equipment	(12,078,808)	(2,045,573)	620,447	(13,503,934)
Motor vehicles	(238,263)	(44,649)	—	(282,912)
	$ (25,190,157)	(2,832,579)	620,447	(27,402,289)

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2011 and June 30, 2010 and changes for the year were as follows:

Description	Balance at June 30, 2010	Issued	Retired	Balance at June 30, 2011
		(Amounts shown in thousands)		
General operating accounts:				
Revolving line of credit:				
Bank of America floating daily rate (rate of 1.135% at June 30, 2011) termination date of December 1, 2011	$ —	40,000	—	40,000
Federal Home Loan Bank floating daily rate (rate of 0.08% at June 30, 2011) no fixed maturity	327,990	286,913	120,732	494,171
Total general operating accounts	327,990	326,913	120,732	534,171
Rental housing bond group:				
2000 Series A/B, dated May 10, 2000, 5.98% effective interest rate, final due date August 1, 2024	50,910	—	50,910	—
2000 Series C, dated August 3, 2000, 8.18% effective interest rate, final due date April 1, 2024	13,655	—	13,655	—
2000 Series D/E, dated August 3, 2000, 5.98% effective interest rate, final due date April 1, 2024	34,965	—	34,965	—
2000 Series F/G/H, dated October 12, 2000, 6.90% effective interest rate, final due date October 1, 2024	51,895	—	51,895	—
2001 Series A/B, dated January 9, 2001, 5.80% effective interest rate, final due date March 1, 2025	50,685	—	37,715	12,970
2001 Series C/D, dated March 22, 2001, 5.25% effective interest rate, final due date June 1, 2024	11,090	—	4,300	6,790

Description	Balance at June 30, 2010	Issued	Retired	Balance at June 30, 2011
		(Amounts shown in thousands)		
2001 Series E/F/G, dated April 26, 2001, 5.32% effective interest rate, final due date June 1, 2025	$ 16,010	—	5,730	10,280
2001 Series H/I, dated July 31, 2001, 6.56% effective interest rate, final due date July 1, 2025	40,855	—	1,605	39,250
2001 Series J/K/L, dated October 23, 2001, 6.06% effective interest rate, final due date December 1, 2025	51,640	—	2,180	49,460
2001 Series M, dated December 18, 2001, 6.78% effective interest rate, final due date January 1, 2027	36,340	—	1,235	35,105
2001 Series N/O, dated December 18, 2001, 5.40% effective interest rate, final due date January 1, 2027	30,860	—	1,200	29,660
2002 Series A, dated April 11, 2002, 6.70% effective interest rate, final due date April 1, 2027	20,155	—	795	19,360
2002 Series B, dated April 11, 2002, 5.30% effective interest rate, final due date April 1, 2027	36,650	—	1,445	35,205
2002 Series C/D, dated June 27, 2002, 6.45% effective interest rate, final due date September 1, 2027	55,665	—	1,750	53,915
2002 Series E/F/G, dated December 19, 2002, 5.45% effective interest rate, final due date January 1, 2028	66,000	—	2,250	63,750
2003 Series A/B, dated April 24, 2003, 5.04% effective interest rate, final due date June 1, 2028	46,980	—	2,020	44,960
2003 Series C/D, dated August 5, 2003, 3.87% effective interest rate, final due date November 1, 2028	49,330	—	2,875	46,455

(Continued)

Description		Balance at June 30, 2010	Issued	Retired	Balance at June 30, 2011
			(Amounts shown in thousands)		
2003 Series E, dated August 5, 2003, 4.84% effective interest rate, final due date November 1, 2028	$	67,650	—	3,140	64,510
2003 Series F/G, dated December 23, 2003, 5.42% effective interest rate, final due date April 1, 2030		45,625	—	1,400	44,225
2004 Series A/B, dated March 17, 2003, 5.25% effective interest rate, final due date March 1, 2030		15,380	—	460	14,920
2004 Series C, dated April 29, 2004, 5.53% effective interest rate, final due date May 1, 2029		65,520	—	2,090	63,430
2004 Series D/E, dated April 29, 2004, 4.72% effective interest rate, final due date May 1, 2029		46,575	—	1,635	44,940
2004 Series F/G, dated September 2, 2004, 5.78% effective interest rate, final due date September 1, 2030		51,955	—	1,385	50,570
2004 Series H/I/J, dated December 16, 2004, 5.10% effective interest rate, final due date December 1, 2029		35,600	—	1,035	34,565
2005 Series A, dated April 26, 2005, 5.37% effective interest rate, final due date May 1, 2030		36,540	—	1,305	35,235
2005 Series B/C, dated April 26, 2005, 4.58% effective interest rate, final due date May 1, 2031		56,490	—	2,400	54,090
2005 Series D, dated June 14, 2005, 5.52% effective interest rate, final due date September 1, 2033		39,545	—	910	38,635
2005 Series E/F, dated June 14, 2005, 4.60% effective interest rate, final due date September 1, 2039		43,395	—	760	42,635

Description	Balance at June 30, 2010	Issued	Retired	Balance at June 30, 2011
		(Amounts shown in thousands)		
2005 Series G, dated October 20, 2005, 5.30% effective interest rate, final due date December 1, 2030	$ 85,875	—	2,490	83,385
2005 Series H/I, dated October 20, 2005, 4.45% effective interest rate, final due date December 1, 2030	36,755	—	1,225	35,530
2005 Series J/K, dated December 14, 2005, 5.30% effective interest rate, final due date February 1, 2035	38,070	—	930	37,140
2006 Series A, dated May 23, 2006, 4.89% effective interest rate, final due date April 1, 2033	8,295	—	210	8,085
2006 Series B, dated October 31, 2006, 4.68% effective interest rate, final due date November 1, 2038	23,000	—	405	22,595
2006 Series C, dated December 12, 2006, 5.95% effective interest rate, final due date January 1, 2039	44,250	—	575	43,675
2006 Series D/E/F, dated December 12, 2006, 4.52% effective interest rate, final due date January 1, 2039	80,550	—	1,490	79,060
2007 Series A, dated June 12, 2007, 6.03% effective interest rate, final due date July 1, 2039	118,710	—	1,315	117,395
2007 Series B/C, dated September 20, 2007, 6.16% effective interest rate, final due date November 1, 2038	23,310	—	375	22,935
2008 Series A, dated March 27, 2008, 5.63% effective interest rate, final due date October 1, 2038	197,260	—	2,900	194,360

Description	Balance at June 30, 2010	Issued	Retired	Balance at June 30, 2011
		(Amounts shown in thousands)		
2009 Series A, dated February 26, 2009, 6.86% effective interest rate, final due date March 1, 2039	$ 72,915	—	1,050	71,865
2009 Series B, dated March 26, 2009, 5.53% effective interest rate, final due date June 1, 2043	29,050	—	395	28,655
2009 Series C/D, dated March 30, 2009, 5.81% effective interest rate, final due date February 1, 2021	348,000	—	13,510	334,490
2009 Series E, dated September 24, 2009, 4.71% effective interest rate, final due date October 1, 2044.	52,185	—	—	52,185
2009 Series F, dated November 25, 2009, 4.85% effective interest rate, final due date December 1, 2044	49,370	—	—	49,370
2010 Series A, dated March 23, 2010, 4.80% effective interest rate, final due date April 1, 2045	21,005	—	—	21,005
2010 Series B, dated April 27, 2010, 4.74% effective interest rate, final due date June 1, 2045	22,750	—	—	22,750
2010 Series C, dated July 28, 2010, 4.62% effective interest rate, final due date August 1, 2045	—	11,790	—	11,790
2010 Series D, dated August 26, 2010, 4.30% effective interest rate, final due date September 1, 2040	—	33,000	—	33,000
2010 Series E, dated October 7, 2010, 4.177% effective interest rate, final due date October 1, 2045	—	38,405	—	38,405
2010 Series F, dated December 2, 2010, 4.85% effective interest rate, final due date January 1, 2041	—	19,700	—	19,700

Description	Balance at June 30, 2010	Issued	Retired	Balance at June 30, 2011
		(Amounts shown in thousands)		
2011 Series A, dated May 24, 2011 4.93% effective interest rate, final due date May 1, 2041	$ —	11,700		11,700
	2,419,310	114,595	259,915	2,273,990
Unamortized premium	4,003	—	—	6,328
Total rental housing bonds	2,423,313			2,280,318
General purpose bonds group:				
2002 Series W, dated October 31, 2002, 5.91% effective interest rate, final due date January 1, 2028	65,260	—	4,210	61,050
2002 Series X/Y/Z, dated October 31, 2002, 4.85% effective interest rate, final due date January 1, 2043	207,440	—	28,240	179,200
2003 Series Q, dated October 30, 2003, 5.65% effective interest rate, final due date October 1, 2028	25,615	—	815	24,800
2003 Series R/S/T/U, dated October 30, 2003 4.68% effective interest rate, final due date October 1, 2038	71,195	—	10,335	60,860
2003 Series V, dated June 26, 2003 4.32% effective interest rate, final due date October 1, 2029	29,760	—	1,985	27,775
	399,270	—	45,585	353,685
Unamortized premium	1,829			1,938
Total VHDA general purpose bonds	401,099			355,623
Commonwealth mortgage bonds group:				
2001 Series A, dated January 30, 2001, 6.63% effective interest rate, final due date February 25, 2030	2,128	—	1,113	1,015

Description		Balance at June 30, 2010	Issued	Retired	Balance at June 30, 2011
			(Amounts shown in thousands)		
2001 Series H, dated October 18, 2001, 5.37% effective interest rate, final due date July 1, 2036	$	205,000	—	22,000	183,000
2002 Series A, dated January 14, 2002, 6.60% effective interest rate, final due date February 25, 2032		6,043	—	766	5,277
2002 Series B, dated March 20, 2002, 6.16% effective interest rate, final due date August 25, 2030		25,222	—	3,234	21,988
2002 Series C/D, dated June 27, 2002, 6.03% effective interest rate, final due date June 25, 2032		6,560	—	6,560	—
2002 Series E/F/G, dated December 17, 2002, 5.14% effective interest rate, final due date December 25, 2032		23,058	—	3,323	19,735
2003 Series C, dated October 1, 2003, 5.09% effective interest rate, final due date August 25, 2033		1,603	—	33	1,570
2004 Series A, dated March 18, 2004, 4.30% effective interest rate, final due date October 1, 2029		122,620	—	11,740	110,880
2004 Series B, dated June 10, 2004, 5.62% effective interest rate, final due date June 25, 2034		6,021	—	1,124	4,897
2004 Series C, dated November 2, 2004, 4.21% effective interest rate, final due date January 1, 2031		128,920	—	12,310	116,610
2005 Series A, dated April 21, 2005, 4.31% effective interest rate, final due date October 1, 2031		338,910	—	35,900	303,010

Description	Balance at June 30, 2010	Issued	Retired	Balance at June 30, 2011
		(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	366,270	—	29,600	336,670
2006 Series A/B, dated April 27, 2006, 5.87% effective interest rate, final due date March 25, 2036	8,620	—	1,357	7,263
2006 Series C, dated June 8, 2006, 6.14% effective interest rate, final due date June 25, 2034	42,889	—	6,954	35,935
2006 Series D/E/F, dated July 13, 2006 4.59% effective interest rate, final due date January 1, 2033	514,205	—	32,000	482,205
2007 Series A/B/C/D, dated May 18, 2007 4.80% effective interest rate, final due date January 1, 2036	973,095	—	36,470	936,625
2008 Series A, dated March 25, 2008, 6.06% effective interest rate, final due March 25, 2038	78,814	—	12,487	66,327
2008 Series B, dated April 10, 2008, 6.09% effective interest rate, final due date March 25, 2038	117,731	—	18,835	98,896
2008 Series C, dated November 18, 2008, 6.38% effective interest rate, final due date June 25, 2038	45,035	—	6,373	38,662
2008 Series D/E, dated December 16, 2008, 6.10% effective interest rate, final due date January 1, 2036	196,135	—	8,225	187,910

Description	Balance at June 30, 2010	Issued	Retired	Balance at June 30, 2011
		(Amounts shown in thousands)		
2009 Series A, dated November 25, 2009, 4.52% effective interest rate, final due date July 1, 2029	$ 51,750	—	—	51,750
	3,306,749	—	250,404	3,056,345
Unamortized premium	18,604			21,998
Total commonwealth mortgage bonds group	3,325,353			3,078,343
Homeownership mortgage bonds group:				
2009 Series B, dated December 23, 2009, 0.184% effective interest rate, final due date November 1, 2041	321,970	—	210,000	111,970
2009 Series B-1, dated February 10, 2010, 4.42% effective interest rate, final due date November 1, 2041	160,990	—	—	160,990
2010 Series A, dated February 10, 2010, 3.38% effective interest rate, final due date September 1, 2021	107,330	—	3,200	104,130
2009 Series B-2, dated October 29, 2010, 3.16% effective interest rate, final due date November 1, 2041	—	105,000		105,000
2010 Series B, dated October 29, 2010, 2.948% effective interest rate, final due date March 1, 2022	—	70,000	2,500	67,500
2011 Series B-3, dated June 14, 2011 3.71% effective interest rate, final due date November 1, 2041	—	105,000		105,000
2011 Series A, dated June 14, 2011 3.27% effective interest rate, final due date March 1, 2024	—	70,000		70,000
	590,290	350,000	215,700	724,590

(Continued)

Description		Balance at June 30, 2010	Issued	Retired	Balance at June 30, 2011
			(Amounts shown in thousands)		
Unamortized discount	$	(452)			(675)
Total homeownership mortgage bonds group		589,838			723,915
Total	$	7,067,593			6,972,370

Notes and bonds payable at June 30, 2010 and June 30, 2009 and changes for the year were as follows (amounts in thousands):

		June 30, 2009	Issued	Retired	Change in unamortized premium and compound interest payable	June 30, 2010
General operating accounts	$	122,605	409,298	203,913		327,990
Rental housing bond group		2,468,110	145,310	190,820	713	2,423,313
Homeownership mortgage bond group		—	751,280	160,990	(452)	589,838
VHDA General purpose bond group		466,289		65,310	120	401,099
Commonwealth mortgage bond group		3,819,985	51,750	548,009	1,626	3,325,352
Total	$	6,876,989	1,357,638	1,169,042	2,007	7,067,592

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

		June 30 2011	June 30 2010
		(Amount in thousands)	
Notes and bonds payable – current	$	822,573	584,041
Bonds payable – noncurrent		6,149,797	6,483,551
Total	$	6,972,370	7,067,592

The Authority has participated in current refundings, in which new debt is issued and the proceeds are used to redeem, generally within ninety days, previously issued debt. Related discounts or premiums previously deferred are recognized in income or expense, respectively. Effective May 1, 2009, all outstanding bonds in the Multi-Family Housing Bond Group were redeemed. The call premium of $3,098,850 less unamortized premiums and cost of issuance on the retired bonds of $999,673, is being amortized through October 2019. There were zero and $51,750,000 of refundings for the years ended June 30, 2011 and 2010, respectively.

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, 2011 and thereafter are as follows:

Period ending June 30	Original principal	Current interest	Total debt service
2012	$ 822,573,653	303,815,284	1,126,388,937
2013	279,490,000	292,668,198	572,158,198
2014	272,905,000	281,510,511	554,415,511
2015	269,910,000	270,100,156	540,010,156
2016	269,485,000	258,326,977	527,811,977
2017 – 2021	1,315,120,000	1,105,039,220	2,420,159,220
2022 – 2026	1,048,040,000	805,325,914	1,853,365,914
2027 – 2031	1,062,977,038	532,929,728	1,595,906,766
2032 – 2036	834,726,165	286,479,250	1,121,205,415
2037 – 2041	578,038,398	85,477,606	663,516,004
2042 – 2046	189,515,000	7,138,955	196,653,955
Total	$ 6,942,780,254	4,228,811,799	11,171,592,053

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

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

The Authority maintains a credit agreement with the Federal Home Loan Bank (FHLB) of Atlanta, whereby FHLB of Atlanta may advance funds that are secured by government agency securities held in FHLB of Atlanta. Interest on any advance is charged under a floating daily rate, which amounted to 0.08% on June 30, 2011 and there is a maximum maturity for any advance of twenty-four months. The Authority is in compliance with all debt covenant requirements. At June 30, 2011, $494.17 million was outstanding and $327.99 million was outstanding at June 30, 2010.

(8) Escrows and Project Reserves

Escrows and project reserves represent amounts held by the Authority as escrows for insurance, real estate taxes and completion assurance, and as reserves for replacement and operations (note 12). The Authority invests these funds and, for project reserves, allows earnings to accrue to the benefit of the mortgagor. At June 30, 2011 and 2010, these escrows and project reserves were presented in the Authority's Statements of Net Assets as follows:

		June 30	
		2011	**2010**
Escrows – current	$	44,752,270	43,051,071
Project reserves – noncurrent		166,442,678	174,820,180
Total	$	211,194,948	217,871,251

(9) Investment Income and Arbitrage Liabilities

The amount of investment income the Authority may earn with respect to certain tax-exempt bond issues in the Commonwealth Mortgage Bond Group, Homeownership Bond Group, Rental Housing Bond Group, and VHDA General Purpose Bond Group is limited by certain federal legislations. Earnings in excess of the allowable amount must be rebated to the U.S. Department of the Treasury. These excess earnings are recorded in accounts payable and other liabilities. Rebates paid were $389,133 and zero for the years ended June 30, 2011 and 2010, respectively. Remaining liability balances were $2,025,383 and $2,441,444 at June 30, 2011 and 2010, respectively.

(10) Net Assets

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

Unrestricted net assets represent those portions of the total net assets set aside to reflect current utilization and tentative plans for future utilization of such net assets. As of June 30, 2011 and 2010, such plans included funds to be available for other loans and loan commitments; over commitments and over allocations in the various bond issues; for support funds and contributions to bond issues; and for working capital and future operating and capital expenditures. Additional unrestricted net assets commitments include contractual obligations for additional contributions to bond reserve funds; maintenance of the Authority's obligation with regard to the general obligation pledge on its bonds; contributions to future bond issues other than those scheduled during the next year; self-insurance on the uninsured, unsubsidized multi-family conventional loan program and any unanticipated losses in connection with the uninsured portions of the balance of the single-family and multi-family loans; self-insurance on the liability exposure of commissioners and officers; the cost of holding foreclosed property prior to resale; costs incurred with the redemption of bonds; single-family loan prepayment shortfalls; and other risks and contingencies.

(11) Employee Benefits Plans

The Authority incurs employment retirement savings expense under two defined contribution plans equal to 8% of full-time employees' compensation. Total retirement savings expense for the years ended June 30, 2011 and 2010 was \$2,584,237 and \$2,462,741 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, 2011 and 2010, included in other liabilities, is an employee compensated absences accrual of \$4,050,459 and \$3,763,412, respectively (note 13).

(12) Other Post-Employment Benefits

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

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

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

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

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

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

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

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

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about mortality and healthcare cost trends. Actuarially determined amounts are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and are subject to continual revisions as actual results are compared with past expectations and revised estimates are made about the future. In the actuarial valuation, the entry age-cost method was used. The actuarial assumptions include a 6.25% long term investment rate of return per annum (compounded annually, that includes a 4.5% inflation rate, 2.5% real rate of return, 4.5% salary scale and a 3.5% salary growth). The projected healthcare cost trend is 10.0% initially, reduced by decrements to an ultimate rate of 5.5% after 9 years. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The UAAL was amortized over 30 years in calculating the fiscal year 2011 ARC.

(13) Other Long-Term Liabilities

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

	Balance at June 30, 2010	Additions	Decreases	Balance at June 30, 2011
Project reserves	$ 174,820,180	77,858,603	86,236,105	166,442,678
Commonwealth Priority Housing Fund liability	8,098,766	104,967	198,405	8,005,328
Other liabilities	16,839,387	3,756,706	3,641,407	16,954,686
Compensated absences payable	3,763,412	1,921,427	1,634,380	4,050,459
Total	$ 203,521,745	83,641,703	91,710,297	195,453,151

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

	Balance at June 30, 2009	Additions	Decreases	Balance at June 30, 2010
Project reserves	$ 168,015,080	62,043,547	55,238,447	174,820,180
Commonwealth Priority Housing Fund liability	8,197,185	1,038,788	1,137,207	8,098,766
Other liabilities	16,195,980	3,616,789	2,973,382	16,839,387
Compensated absences payable	3,551,919	1,668,342	1,456,849	3,763,412
Total	$ 195,960,164	68,367,466	60,805,885	203,521,745

(Continued)

(14) Contingencies and Other Matters

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

The Authority participates in several Federal financial assistance programs, principal of which are the HUD loan guarantee programs. Although the Authority's administration of Federal grant programs has been audited in accordance with the provisions of the United States Office of Management and Budget Circular A-133, these programs are still subject to financial and compliance audits. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial in relation to its financial statements.

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

(15) Subsequent Events

In addition to scheduled issuances and redemptions, the Authority made the following borrowings (repayments) subsequent to June 30, 2011 as follows:

	Borrowing date	**Amount**
FHLBank Atlanta	July 11, 2011	20,000,000
Bank of America, N.A., Revolving Credit Agreement	July 11, 2011	(20,000,000)

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

Schedule 1

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

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, 2007	$ 8,631,596	10,747,191	2,115,595	80.3%	$ 20,479,198	10.3%
December 31, 2008	7,880,680	12,016,655	4,135,976	65.6	21,830,868	18.9
December 31, 2009	10,333,985	16,280,849	5,946,864	63.5	22,527,041	26.4
December 31, 2010	12,337,427	17,797,668	5,460,241	69.3	22,973,051	23.8

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

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

Schedule 2

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Assets

June 30, 2011

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	$ 720,135,777	99,810,827	32,690,582	322,392,703	216,080,023	1,391,109,912
Investments	4,523,890	—	—	—	—	4,523,890
Interest receivable – investments	319,830	21,737	13,235	397,480	13,192	765,474
Mortgage and other loans receivable	2,519,901	58,740,577	22,441,074	72,850,013	10,649,397	167,200,962
Interest receivable – mortgage and other loans	1,213,703	16,550,757	2,523,371	16,448,953	1,653,900	38,390,684
Other real estate owned	532,393	5,237,444	3,895,488	36,206,888	—	45,872,213
Other assets	6,599,367	808,616	497,976	2,378,913	—	10,284,872
Total current assets	735,844,861	181,169,958	62,061,726	450,674,950	228,396,512	1,658,148,007
Noncurrent assets:						
Investments	65,492,285	6	900,281	93,304,747	—	159,697,319
Mortgage and other loans receivable	96,156,239	2,821,374,836	464,928,000	3,996,654,654	506,791,653	7,885,905,382
Less allowance for loan loss	8,395,573	49,575,274	10,132,537	58,241,481	1,183,083	127,527,948
Less net deferred loan fees	565,049	40,371,008	3,465,760	(16,162,790)	(3,957,971)	24,281,056
Mortgage and other loans receivable, net	87,195,617	2,731,428,554	451,329,703	3,954,575,963	509,566,541	7,734,096,378
Investment in rental property, net	—	50,919,031	7,419,512	—	—	58,338,543
Property, furniture, and equipment, less accumulated depreciation and amortization of $23,438,363	9,543,542	7,029,786	8,426,612	—	—	24,999,940
Unamortized bond issuance expenses	362,750	1,549,919	1,215,872	1,187,017	1,048,638	5,364,196
Other assets	3,352,291	—	—	—	—	3,352,291
Total noncurrent assets	165,946,485	2,790,927,296	469,291,980	4,049,067,727	510,615,179	7,985,848,667
Total assets	$ 901,791,346	2,972,097,254	531,353,706	4,499,742,677	739,011,691	9,643,996,674

Schedule 2

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

Combining Schedule of Net Assets

June 30, 2011

Liabilities and Net Assets	**General Operating Accounts**	**Rental Housing Bond Group**	**VHDA General Purpose Bond Group**	**Commonwealth Mortgage Bond Group**	**Home-ownership Bond Group**	**Total**
Current liabilities:						
Notes and bonds payable	$ 534,170,752	81,390,000	11,575,000	177,437,901	18,000,000	822,573,653
Accrued interest payable on notes and bonds	28,822	34,181,206	7,442,780	54,426,243	2,719,409	98,798,460
Housing Choice Voucher contributions payable	212,905	—	—	—	—	212,905
Escrows	44,752,270	—	—	—	—	44,752,270
Accounts payable and other liabilities	7,517,855	406,648	142,632	6,158,849	—	14,225,984
Total current liabilities	586,682,604	115,977,854	19,160,412	238,022,993	20,719,409	980,563,272
Noncurrent liabilities:						
Bonds payable, net	—	2,198,928,491	344,048,132	2,900,905,091	705,915,453	6,149,797,167
Project reserves	166,442,678	—	—	—	—	166,442,678
Other liabilities	(5,247,719)	29,190,715	4,499,851	567,626	—	29,010,473
Total noncurrent liabilities	161,194,959	2,228,119,206	348,547,983	2,901,472,717	705,915,453	6,345,250,318
Total liabilities	747,877,563	2,344,097,060	367,708,395	3,139,495,710	726,634,862	7,325,813,590
Net assets:						
Invested in capital assets, net of related debt	9,456,029	14,878,932	(4,653,985)	—	—	19,680,976
Restricted by bond indentures	—	613,121,262	168,299,296	1,360,246,967	12,376,829	2,154,044,354
Unrestricted	144,457,754	—	—	—	—	144,457,754
Total net assets	153,913,783	628,000,194	163,645,311	1,360,246,967	12,376,829	2,318,183,084
Total liabilities and net assets	$ 901,791,346	2,972,097,254	531,353,706	4,499,742,677	739,011,691	9,643,996,674

See accompanying independent auditors’ report.

Schedule 3

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

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

Year ended June 30, 2011

	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Operating revenues:						
Interest on mortgage and other loans	$ 3,037,691	203,403,230	34,252,525	247,993,953	16,439,257	505,126,656
Pass-through grants income	157,788,891	—	—	—	—	157,788,891
Housing Choice Voucher program income	72,812,764	—	—	—	—	72,812,764
Investment in rental property income	—	10,142,060	3,057,622	—	—	13,199,682
Gains and recoveries on sale of other real estate owned	—	594,434	43,617	1,026,930	100	1,665,081
Other	8,594,723	1,503,303	921,843	736,710	—	11,756,579
Total operating revenues	242,234,069	215,643,027	38,275,607	249,757,593	16,439,357	762,349,653
Operating expenses:						
Interest on notes and bonds	886,418	131,091,633	19,191,839	155,739,916	14,378,267	321,288,073
Salaries and related employee benefits	33,211,365	—	—	—	—	33,211,365
General operating expenses	18,146,259	201,978	347,888	—	—	18,696,125
Note and bond expenses	546,921	—	—	—	—	546,921
Amortization of bond issuance expenses	32,542	353,861	205,551	88,705	29,330	709,989
Pass-through grants expenses	157,788,891	—	—	—	—	157,788,891
Housing Choice Voucher program expenses	70,943,848	—	—	—	—	70,943,848
External mortgage servicing expenses	480,790	—	4,419	374,640	—	859,849
Investment in rental property expenses	—	11,085,739	3,004,594	—	—	14,090,333
Losses and expenses on other real estate owned	472,410	6,928,129	4,915,778	29,805,149	26,768	42,148,234
Provision for loan losses	5,121,249	4,387,847	(1,911,348)	12,563,573	877,179	21,038,500
Total operating expenses	287,630,693	154,049,187	25,758,721	198,571,983	15,311,544	681,322,128
Operating income (expense)	(45,396,624)	61,593,840	12,516,886	51,185,610	1,127,813	81,027,525
Nonoperating revenues:						
Investment income	3,597,854	5,036,770	142,381	5,955,988	554,474	15,287,467
Other, net	55,037	—	—	—	—	55,037
Total nonoperating revenues	3,652,891	5,036,770	142,381	5,955,988	554,474	15,342,504
Income (loss) before transfers	(41,743,733)	66,630,610	12,659,267	57,141,598	1,682,287	96,370,029
Transfers between funds	28,682,016	87,530,547	5,968,445	(130,391,656)	8,210,648	—
Change in net assets	(13,061,717)	154,161,157	18,627,712	(73,250,058)	9,892,935	96,370,029
Total net assets, beginning of year	166,975,500	473,839,037	145,017,599	1,433,497,025	2,483,894	2,221,813,055
Total net assets, end of year	$ 153,913,783	628,000,194	163,645,311	1,360,246,967	12,376,829	2,318,183,084

See accompanying independent auditors' report.

Schedule 4

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

Combining Schedule of Net Assets

June 30, 2010

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	$	512,447,173	113,175,904	30,426,058	207,993,917	354,833,974	1,218,877,026
Investments		55,328,415	—	—	—	—	55,328,415
Interest receivable – investments		392,527	44,660	12,330	289,154	13,685	752,356
Mortgage and other loans receivable		2,060,575	56,170,108	23,285,291	75,229,786	3,738,736	160,484,496
Interest receivable – mortgage and other loans		1,043,092	16,022,553	2,733,368	18,042,701	516,242	38,357,956
Other real estate owned		445,861	6,600,465	1,532,855	25,863,748	—	34,442,929
Other assets		5,932,673	253,125	3,001,328	1,690,732	943,402	11,821,260
Total current assets		577,650,316	192,266,815	60,991,230	329,110,038	360,046,039	1,520,064,438
Noncurrent assets:							
Investments		59,006,899	20,703,034	921,861	66,266,414	—	146,898,208
Mortgage and other loans receivable		71,285,992	2,786,815,496	497,604,294	4,460,991,969	232,936,365	8,049,634,116
Less allowance for loan loss		3,274,324	45,187,427	12,043,885	45,677,908	305,904	106,489,448
Less net deferred loan fees		422,858	40,918,893	3,650,882	(16,801,773)	(795,948)	27,394,912
Mortgage and other loans receivable, net		67,588,810	2,700,709,176	481,909,527	4,432,115,834	233,426,409	7,915,749,756
Investment in rental property, net		751,982	41,560,192	3,995,362	—	—	46,307,536
Property, furniture, and equipment, less accumulated depreciation and amortization of $27,402,289		8,932,029	6,793,295	8,774,499	—	—	24,499,823
Unamortized bond issuance expenses		385,844	2,880,442	1,421,423	1,272,955	788,084	6,748,748
Other assets		581,346	—	8,008	361,640	—	950,994
Total noncurrent assets		137,246,910	2,772,646,139	497,030,680	4,500,016,843	234,214,493	8,141,155,065
Total assets	$	714,897,226	2,964,912,954	558,021,910	4,829,126,881	594,260,532	9,661,219,503

Schedule 4

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

Combining Schedule of Net Assets

June 30, 2010

Liabilities and Net Assets	**General Operating Accounts**	**Rental Housing Bond Group**	**VHDA General Purpose Bond Group**	**Commonwealth Mortgage Bond Group**	**Home-ownership Bond Group**	**Total**
Current liabilities:						
Notes and bonds payable	$ 327,990,000	70,825,000	11,220,000	170,806,478	3,200,000	584,041,478
Accrued interest payable on notes and bonds	48,374	37,649,230	8,339,175	58,004,985	1,938,285	105,980,049
Housing Choice Voucher contributions payable	7,552	—	—	—	—	7,552
Escrows	43,051,071	—	—	—	—	43,051,071
Accounts payable and other liabilities	8,625,208	398,303	111,251	10,118,434	—	19,253,196
Total current liabilities	379,722,205	108,872,533	19,670,426	238,929,897	5,138,285	752,333,346
Noncurrent liabilities:						
Bonds payable, net	—	2,352,487,988	389,879,120	3,154,545,896	586,638,353	6,483,551,357
Project reserves	174,820,180	—	—	—	—	174,820,180
Other liabilities	(6,620,659)	29,713,396	3,454,765	2,154,063	—	28,701,565
Total noncurrent liabilities	168,199,521	2,382,201,384	393,333,885	3,156,699,959	586,638,353	6,687,073,102
Total liabilities	547,921,726	2,491,073,917	413,004,311	3,395,629,856	591,776,638	7,439,406,448
Net assets:						
Invested in capital assets, net of related debt	8,693,754	(5,741,825)	(8,701,217)	—	—	(5,749,288)
Restricted by bond indentures	—	479,580,862	153,718,816	1,433,497,025	2,483,894	2,069,280,597
Unrestricted	158,281,746	—	—	—	—	158,281,746
Total net assets	166,975,500	473,839,037	145,017,599	1,433,497,025	2,483,894	2,221,813,055
Total liabilities and net assets	$ 714,897,226	2,964,912,954	558,021,910	4,829,126,881	594,260,532	9,661,219,503

See accompanying independent auditors' report.

Schedule 5

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

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

Year ended June 30, 2010

	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Operating revenues:						
Interest on mortgage and other loans	$ 2,778,267	196,887,734	37,524,516	273,393,771	2,224,859	512,809,147
Pass-through grants income	128,264,102	—	—	—	—	128,264,102
Housing Choice Voucher program income	69,320,793	—	—	—	—	69,320,793
Investment in rental property income	—	10,828,279	2,669,114	—	—	13,497,393
Gains and recoveries on sale of other real estate owned	(1)	4,402,096	25,454	501,706	—	4,929,255
Other	8,688,430	361,782	1,085,193	3,236,276	—	13,371,681
Total operating revenues	209,051,591	212,479,891	41,304,277	277,131,753	2,224,859	742,192,371
Operating expenses:						
Interest on notes and bonds	384,406	139,309,952	21,961,654	172,304,251	3,425,827	337,386,090
Salaries and related employee benefits	31,804,552	—	—	—	—	31,804,552
General operating expenses	16,223,567	217,220	463,854	—	—	16,904,641
Note and bond expenses	558,425	—	—	—	—	558,425
Amortization of bond issuance expenses	52,125	344,997	289,696	241,436	14,038	942,292
Pass-through grants expenses	128,264,102	—	—	—	—	128,264,102
Housing Choice Voucher program expenses	69,780,762	—	—	—	—	69,780,762
External mortgage servicing expenses	85,296	—	12,448	1,252,456	—	1,350,200
Investment in rental property expenses	20,362	10,034,053	2,782,941	—	—	12,837,356
Losses and expenses on other real estate owned	701,249	8,939,193	2,365,795	20,743,804	—	32,750,041
Provision for loan losses	(592,672)	15,838,237	4,975,404	4,804,369	305,904	25,331,242
Total operating expenses	247,282,174	174,683,652	32,851,792	199,346,316	3,745,769	657,909,703
Operating income (expense)	(38,230,583)	37,796,239	8,452,485	77,785,437	(1,520,910)	84,282,668
Nonoperating revenues:						
Investment income	5,742,503	7,554,421	222,242	4,125,413	400,888	18,045,467
Other, net	70,938	—	—	—	—	70,938
Total nonoperating revenues	5,813,441	7,554,421	222,242	4,125,413	400,888	18,116,405
Income (loss) before transfers	(32,417,142)	45,350,660	8,674,727	81,910,850	(1,120,022)	102,399,073
Transfers between funds	45,408,438	(4,240,369)	5,840,375	(50,612,360)	3,603,916	—
Change in net assets	12,991,296	41,110,291	14,515,102	31,298,490	2,483,894	102,399,073
Total net assets, beginning of year	153,984,204	432,728,746	130,502,497	1,402,198,535	—	2,119,413,982
Total net assets, end of year	$ 166,975,500	473,839,037	145,017,599	1,433,497,025	2,483,894	2,221,813,055

See accompanying independent auditors' report.

KPMG

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

The Board of Commissioners
Virginia Housing Development Authority:

We have audited the basic financial statements of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Commissioners, the Audit Committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 20, 2011