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, 2012 and 2011

(With Independent Auditors' Report Thereon)

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Management's Discussion and Analysis

June 30, 2012 and 2011

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, 2012 and 2011. Readers are encouraged to consider this information in conjunction with the Authority's basic financial statements, accompanying notes, and supplementary information, which follow this section.

Organization Overview

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

In addition to its major mortgage loan programs, the Authority also administers, on a fee basis, various other programs related to its lending activities. Such programs include the Housing Choice Voucher program, which provides rental subsidies from federal funds, and the federal Low Income Housing Tax Credit program, which awards income tax credits for the purpose of developing low-income multi-family housing projects. The Authority also funds Resources Enabling Affordable Community Housing (REACH 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, including grants, under its programs are subject to review by the Authority of the impact on its financial position. The Authority finances some, but not all, of such subsidized mortgage loans, in whole or in part, with funds under its various bond resolutions.

Financial Statements

The basic financial statements consist of the Statements of Net 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.

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

Financial Highlights

Overview

The Authority has sustained its loan programs and services and improved its financial condition despite unprecedented federal intervention in the housing and capital markets, rising delinquencies, foreclosures and loan losses, and nominal investment earnings. Net assets have increased by approximately 4% for two consecutive years, bringing total net assets as of June 30, 2012 to $2,405 million, or more than one-quarter of the total assets held by the Authority. Cited for key indicators consisting of its strong financial position, sound financial practices and experienced management, both Standard and Poor's Ratings Services (Standard & Poor's) and Moody's Investors Services (Moody's) rating agencies re-affirmed in July 2012 the Authority's AA+ issuer credit rating and Aa1 general obligation credit rating, respectively.

In its single family loan program, the Authority has been able to offer loans at low interest rates and down-payment assistance for qualified first time homebuyers through the U.S. Treasury's New Issue Bond Program and through securitization of federally-insured and guaranteed loans by the issuance of Ginnie Mae securities. In addition, the Authority initiated Fannie Mae's HFA Preferred Program that is expected to allow the Authority to finance up to $100 million of single family mortgage loans without government mortgage insurance and, unlike tax-exempt bonds, permits the funding of refinancing loans and loans to borrowers who are not first time homebuyers. In its multi-family loan program, the Authority has continued to fund developments through the issuance of tax-exempt and taxable bonds.

The Authority's servicing efforts for its single family loan portfolio have been focused on working with troubled single family borrowers and mitigating potential foreclosure losses. The Authority has continued to offer borrowers various means, including loan modifications, to prevent foreclosure for otherwise responsible single family borrowers encountering financial hardships. As long as employment levels, wages, and housing values remain weak in Virginia, challenges for the Authority's single family borrowers are expected to continue. In response to higher single family loan losses, increased reserve requirements for those loans 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 lessen delinquencies and foreclosures to levels significantly below those for Virginia and the nation.

As part of its servicing of its multi-family loans, the Authority identifies at-risk developments on its watch list or troubled project list in order to assess and mitigate the risk on such developments and to determine the amount to be included in the Authority's Allowance for Loan Loss for such developments. As in the case of single family loans, the Authority offers loss mitigation, including loan modifications, to the borrowers to reduce the risk of default and loss on the multi-family loans. As a result, the delinquencies and defaults on its multi-family loans have been maintained at relatively low levels, but such levels could be adversely impacted in the future by negative economic conditions.

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

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

Year Ended June 30, 2012

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

As of June 30, 2012, the Authority serviced 55,565 first and second homeownership mortgage loans with outstanding balances totaling $5.1 billion. The number of loans serviced, net of prepayments, increased 1,016 or 1.9% since June 30, 2011 while outstanding loan balances decreased $106.1 million or 2.1% as of the same date.

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

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

As of June 30, 2012, the Authority serviced 1,477 rental mortgage loans with outstanding balances totaling $3.35 billion. Compared to June 30, 2011, the number of loans in the portfolio decreased by 27 while loan balances decreased $10.9 million or 0.3%. Delinquency rates based on portfolio loan count averaged 1.38% and

1.85% in FY 2012 and FY 2011, respectively. The average delinquency rates based on outstanding loan balances were 0.61% or $20.2 million in FY 2012 compared to 0.80% or $26.5 million in FY 2011.

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.

Financial Analysis of the Authority

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

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

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

The largest component of the Authority's liabilities is outstanding bonds payable, the majority of which is fixed rate to maturity dates that may extend into the future as much as forty years. The Authority continues to maintain strong long-term ratings of Aa1 from Moody's and AA+ from Standard & Poor's for its general credit rating as well as all bond indentures other than the Commonwealth Mortgage Bonds indenture, which is rated Aaa and AAA, by Moody's and Standard & Poor's, respectively. Net 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 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, 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		
		2012	**2011**	**2010**
Cash and cash equivalents	$	681.6	1,391.1	1,218.9
Investments		197.4	164.2	202.2
Mortgage and other loans receivable, net		7,728.0	7,901.3	8,076.2
Other assets		174.7	187.4	163.9
Total assets		8,781.7	9,644.0	9,661.2
Notes and bonds payable, net		6,054.7	6,972.4	7,067.6
Other liabilities		321.9	353.4	371.8
Total liabilities		6,376.6	7,325.8	7,439.4
Invested in capital assets, net of related debt		36.6	19.7	(5.7)
Restricted by bond indentures		2,279.5	2,154.1	2,069.2
Unrestricted		89.0	144.4	158.3
Net assets	$	2,405.1	2,318.2	2,221.8

(Continued)

June 30, 2012 Compared to June 30, 2011

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

Total liabilities decreased $949.2 million, or 13.0% from the prior year. Notes and bonds payable decreased $917.7 million or 13.2%, due primarily to the payment of the note of the Federal Home Loan Bank of Atlanta. For the year, the Authority issued $74.7 million in single-family homeownership bonds and $383.9 million in rental housing bonds, converted $112.0 million in original issue homeownership bonds, and paid down a net $424.7 million on notes and lines of credit. Bond principal pay downs and redemptions totaled $1,065.3 million. Proceeds from bond issues in the homeownership bond group and GNMA mortgage loan securitizations were the principal source of funding for mortgage loan originations.

Total assets exceeded total liabilities by $2,405.1 million, representing an increase in net assets of $86.9 million, or 3.7% from the prior year. As of June 30, 2012, net assets invested in capital assets, net of related debt, were $36.6 million. Net assets restricted by bondholders totaled $2,279.5 million, an increase of $125.4 million, or 5.8% from the prior year. Unrestricted net assets totaled $89.0 million, a decrease of $55.4 million, or 38.4%.

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 $2,154.0 million, an increase of $84.7 million, or 4.10% from the prior year. Unrestricted net assets totaled $144.5 million, a decrease of $13.8 million, or 8.7%.

(Continued)

Condensed Statements of Revenues, Expenses and Changes in Net Assets

(In millions)

		Year ended June 30		
		2012	**2011**	**2010**
Operating revenues:				
Interest on mortgage and other loans	$	489.3	505.1	512.8
Pass-through grants received		119.6	157.8	128.3
Housing Choice Voucher program income		36.6	72.7	69.3
Other operating revenues		44.6	26.7	31.8
Total operating revenues		690.1	762.3	742.2
Operating expenses:				
Interest on notes and bonds payable		296.1	321.3	337.4
Pass-through grants disbursed		119.6	157.8	128.3
Housing Choice Voucher program expense		39.4	70.9	69.7
Other operating expenses		165.2	131.3	122.5
Total operating expenses		620.3	681.3	657.9
Operating income		69.8	81.0	84.3
Nonoperating revenues (expenses):				
Investment income, net		17.8	15.3	18.0
Other nonoperating revenues (expenses)		(0.6)	0.1	0.1
Total nonoperating revenues, net		17.2	15.4	18.1
Change in net assets	$	87.0	96.4	102.4

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 interest income as well as realized and unrealized gains or losses on investments.

Included in investment income are $9.3 million and $11.3 million of unrealized gains for the years ended June 30, 2012 and 2011, respectively. The Authority generally holds these investments to maturity.

Fiscal Year 2012

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

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

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

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 funding in the federal low income housing tax credit program that was included in the American Recovery and Reinvestment Act of 2009 and that the Authority received 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 $8.9 million or 7.3% above last year. Loan loss provision and expenses accounted for $5.1 million of this increase.

Nonoperating revenues, net, 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.

Other Economic Factors

The Authority's mortgage loan financing activities are sensitive to the general level of involvement of the federal government in the housing and capital markets, the general level of interest rates, the interest rates and other characteristics of the Authority's loans compared to loan products available in the conventional mortgage markets, and the availability of affordable housing in the Commonwealth. The availability of long-term tax-exempt and taxable financing on favorable terms and the ability to securitize through GNMA and FNMA are key elements in providing the funding necessary for the Authority to continue its mortgage financing activities.

The Authority’s main sources of revenues include mortgage loan interest and investment interest income. Short-term investment rates in the United States have declined sharply from a peak of approximately 5.0% in February, 2007 to 0.09% in June 2012, and 0.04% in June 2011.

Delinquency and foreclosure rates in the single family loan portfolio, and to a lesser extent the multi-family loan portfolio, are influenced by unemployment and underemployment. Virginia’s seasonally adjusted unemployment rate was 5.7% and 6.3% in June 2012 and 2011, respectively. Virginia underemployment rates, which include those no longer seeking employment and those employed only part-time who desire full-time work, were 12.0% and 11.8% in the twelve months ended June 30, 2012 and 2011, respectively.

Additional Information

If you have questions about this report or need additional information, please visit the Authority’s Web site, www.vhda.com, 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 basic financial statements of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. 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, 2012 and 2011, and the changes in its financial position and its cash flows 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 12, 2012 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.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and Schedule of Funding Progress by Plan Valuation Date on pages 1 through 9 and page 46, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The supplementary information included in schedules 2 through 5 on pages 47 through 52 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

September 12, 2012

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

Statements of Net Assets

June 30, 2012 and 2011

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents (note 5)	$	681,660,584	1,391,109,912
Investments (note 5)		3,711,993	4,523,890
Interest receivable – investments		780,537	765,474
Mortgage and other loans receivable, net (note 4)		177,758,546	167,200,962
Interest receivable – mortgage and other loans		36,716,859	38,390,684
Other real estate owned		27,344,659	45,872,213
Other assets		7,429,586	10,284,872
Total current assets		935,402,764	1,658,148,007
Noncurrent assets:			
Investments (note 5)		193,714,399	159,697,319
Mortgage and other loans receivable (note 4)		7,727,739,729	7,885,905,382
Less allowance for loan loss		159,338,711	127,527,948
Less net deferred loan fees		18,175,026	24,281,056
Mortgage and other loans receivable, net		7,550,225,992	7,734,096,378
Investment in rental property, net		69,058,381	58,338,543
Property, furniture, and equipment, less accumulated depreciation and amortization of $25,756,219 and $23,438,363, respectively (note 6)		25,442,293	24,999,940
Unamortized bond issuance expenses		4,305,643	5,364,196
Other assets		3,603,369	3,352,291
Total noncurrent assets		7,846,350,077	7,985,848,667
Total assets	$	8,781,752,841	9,643,996,674
Liabilities and Net Assets			
Current liabilities:			
Notes and bonds payable (note 7)	$	388,377,856	822,573,653
Accrued interest payable on notes and bonds		88,152,455	98,798,460
Housing Choice Voucher contributions payable		499,436	212,905
Escrows (note 8)		45,156,796	44,752,270
Derivative instruments (note 9)		636,387	—
Accounts payable and other liabilities (note 10)		15,410,530	14,225,984
Total current liabilities		538,233,460	980,563,272
Noncurrent liabilities:			
Bonds payable, net (note 7)		5,666,295,890	6,149,797,167
Project reserves (notes 8 and 14)		139,385,475	166,442,678
Other liabilities (notes 10, 12, and 14)		32,689,931	29,010,473
Total noncurrent liabilities		5,838,371,296	6,345,250,318
Total liabilities		6,376,604,756	7,325,813,590
Net assets (note 11):			
Invested in capital assets, net of related debt		36,610,245	19,680,976
Restricted by bond indentures		2,279,519,231	2,154,044,354
Unrestricted		89,018,609	144,457,754
Total net assets		2,405,148,085	2,318,183,084
Total liabilities and net assets	$	8,781,752,841	9,643,996,674

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, 2012 and 2011

	2012	2011
Operating revenues:		
Interest on mortgage and other loans receivable	$ 489,280,586	505,126,656
Pass-through grants income	119,608,753	157,788,891
Housing Choice Voucher program income (note 1)	36,616,431	72,812,764
Investment in rental property income	14,314,843	13,199,682
Gains and recoveries on sale of other real estate owned	17,911,543	1,665,081
Other	12,313,372	11,756,579
Total operating revenues	690,045,528	762,349,653
Operating expenses:		
Interest on notes and bonds payable	296,143,802	321,288,073
Salaries and related employee benefits (notes 5, 12, and 13)	34,530,859	33,211,365
General operating expenses	19,118,047	18,696,125
Note and bond expenses	393,428	546,921
Amortization of bond issuance expenses	843,655	709,989
Pass-through grants expenses	119,608,753	157,788,891
Housing Choice Voucher program expenses (note 1)	39,416,626	70,943,848
External mortgage servicing expenses	922,512	859,849
Investment in rental property expenses	17,296,931	14,090,333
Losses and expenses on other real estate owned	60,204,610	42,148,234
Provision for loan losses (note 1)	31,810,763	21,038,500
Total operating expenses	620,289,986	681,322,128
Operating income	69,755,542	81,027,525
Nonoperating revenues (expenses):		
Investment income (note 10)	17,785,982	15,287,467
Unrealized loss on derivative instruments (note 9)	(636,387)	—
Other, net	59,864	55,037
Total nonoperating revenues, net	17,209,459	15,342,504
Change in net assets	86,965,001	96,370,029
Total net assets, beginning of year	2,318,183,084	2,221,813,055
Total net assets, end of year	$ 2,405,148,085	2,318,183,084

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, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash payments for mortgage and other loans	$ (648,238,035)	(647,914,371)
Principal repayments on mortgage and other loans	669,973,083	626,057,420
Sale of mortgage loans	72,511,429	113,206,616
Interest received on mortgage and other loans	478,041,449	499,985,667
Pass-through grants received	119,608,753	157,788,891
Pass-through grants disbursed	(119,608,753)	(157,788,891)
Housing Choice Voucher payments received	36,912,906	73,027,772
Housing Choice Voucher payments disbursed	(39,477,243)	(71,859,956)
Escrow and project reserve payments received	284,105,138	341,527,474
Escrow and project reserve payments disbursed	(310,637,522)	(347,998,382)
Other operating revenues	31,864,669	14,821,137
Cash received for loan origination fees	3,307,090	2,087,071
Cash paid for loan origination fees	(6,558,611)	(5,078,803)
Cash payments for salaries and related benefits	(34,254,766)	(33,004,969)
Cash payments for general operating expenses	(25,349,181)	(31,707,397)
Cash payments for mortgage servicing expenses	(284,290)	(2,516,194)
Proceeds from sale of other real estate owned	34,792,212	28,560,897
Investment in rental property	(10,590,737)	(13,271,658)
Net cash provided by operating activities	536,117,591	545,922,324
Cash flows from noncapital financing activities:		
Proceeds from issuance of notes and bonds	1,124,380,150	791,508,000
Principal payments on notes and bonds	(2,043,868,417)	(892,336,552)
Interest payments on notes and bonds	(301,033,559)	(319,076,252)
Cash payments for bond issuance expenses	(3,750,158)	(3,112,310)
Net cash used in noncapital financing activities	(1,224,271,984)	(423,017,114)
Cash flows from capital and related financing activities:		
Purchases of property, furniture, and equipment	(3,762,171)	(3,330,627)
Net cash used in capital and related financing activities	(3,762,171)	(3,330,627)
Cash flows from investing activities:		
Purchases of investments	(69,336,369)	(69,437,001)
Proceeds from sales or maturities of investments	45,279,551	115,752,081
Interest received on investments	6,524,054	6,343,223
Net cash provided by (used in) investing activities	(17,532,764)	52,658,303
Net increase (decrease) in cash and cash equivalents	(709,449,328)	172,232,886
Cash and cash equivalents, at beginning of year	1,391,109,912	1,218,877,026
Cash and cash equivalents, at end of year	$ 681,660,584	1,391,109,912

(Continued)

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

Statements of Cash Flows

Years ended June 30, 2012 and 2011

		2012	2011
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	69,755,542	81,027,525
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation of property, furniture, and equipment		3,310,586	2,787,299
Other depreciation and amortization		843,654	709,990
Interest on notes and bonds payable		296,143,803	321,288,072
(Increase) in investment in rental property, net		(7,608,650)	(12,031,007)
Decrease in mortgage and other loans receivable		147,608,069	157,012,267
Increase in allowance for loan loss		31,810,763	21,038,500
(Decrease) in net deferred loan fees		(6,106,029)	(3,113,856)
(Increase) decrease in interest receivable – mortgage and other loans		1,673,824	(32,728)
(Increase) decrease in other real estate owned		18,527,554	(11,429,284)
Decrease in Housing Choice Voucher contributions payable		286,531	205,353
(Increase) decrease in other assets		2,604,205	(766,660)
Increase (decrease) in accounts payable and other liabilities		3,800,123	(4,302,239)
(Decrease) in escrows and project reserves		(26,532,384)	(6,470,908)
Net cash provided by operating activities	$	536,117,591	545,922,324
Supplemental disclosure of noncash activity:			
Increase in other real estate owned as a result of loan foreclosures	$	77,098,705	82,738,794

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 financed by the proceeds of notes, bonds, or other debt obligations of the Authority or by Ginnie Mae mortgage backed securities (see (g) below). The notes, bonds and other debt obligations do not constitute a debt or grant or loan of credit of the Commonwealth of Virginia (the Commonwealth), and the Commonwealth is not liable for the repayment of such obligations.

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

(b) Measurement Focus and Basis of Accounting

The Authority utilizes the economic resources measurement focus and accrual basis of accounting in preparing its basic financial statements where revenues are recognized when earned and expenses when incurred. The accounts are organized on the basis of funds and groups of funds, which are set up in accordance with the authorizing act and the various note and bond resolutions. 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) Derivative Instruments

Forward sales securities commitments are utilized to hedge changes in fair value of mortgage loan inventory and commitments to originate mortgage loans. At June 30, 2012 the Authority had executed 16 forward sales transactions with a $66,311,853 notional amount with seven counterparties with concentrations and ratings (Standard & Poor's, Moody's Investors Service) as shown in note 9. The forward sales will settle by August 20, 2012. These contracts are treated as investment derivative instruments in accordance with Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.*

(f) Investment in Rental Property

Investment in rental property represents several multi-family apartment complexes, including the related property, furniture, and equipment. These assets are recorded at cost and are depreciated using the straight-line method over the estimated useful lives, which are 30 years for buildings, 15 years for building improvements and from 5 to 10 years for furniture and equipment. The investments are carried net of accumulated depreciation of $11,513,873 as of June 30, 2012 and $14,236,447 as of June 30, 2011. These investments are also tested for impairment when triggers are identified.

(g) 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 backed by pools of mortgage loans originated or purchased by the Authority. These mortgage loan securitizations are treated as sales for accounting and reporting purposes. Upon the sale, the Authority no longer recognizes the mortgage loans receivable in the Statements of Net Assets.

(h) 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 $31,810,763 and $21,038,500 for the years ended June 30, 2012 and 2011, respectively.

(i) 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, 2012 and 2011.

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

(j) 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.

(k) Other Real Estate Owned

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

(l) Notes and Bonds Payable

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

(m) 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.

(n) 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.

(o) 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 Substantial 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 $69,481,674 and $73,281,181 during the years ended June 30, 2012 and 2011, 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 $120,284 and $133,608 during fiscal years 2012 and 2011, respectively.

National Foreclosure Mitigation Counseling

The Authority is a grantee of NeighborWorks America, a national nonprofit organization created by the U.S. Congress to provide financial support, technical assistance, and training for community-based revitalization efforts. As a grantee in the National Foreclosure Mitigation Counseling program, the Authority assists nonprofit agencies by distributing NeighborWorks funds administered by the Authority. The Authority received and disbursed pass-through grants totaling $326,180 during fiscal year 2012 and $180,917 during fiscal year 2011.

Emergency Homeowners Loan Program

The Authority is also a grantee of NeighborWorks America for the Emergency Homeowners Loan Program which provides mortgage payment relief to eligible homeowners experiencing a decrease in income of at least 15 percent, directly resulting from involuntary unemployment or underemployment due to adverse economic conditions and/or a medical emergency. The Authority received and disbursed assistance of $142,367 during fiscal year 2012, the first and only year of 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 $14,603,896 of assistance during fiscal year 2012 and $62,727,617 during fiscal year 2011.

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 housing credit agencies in each state distribute these funds competitively and according to their qualified allocation plan. As the housing credit administrator in the Commonwealth, the Authority received and disbursed $2,136,594 of assistance during fiscal year 2012 and $21,465,568 during fiscal year 2011.

(p) Housing Choice Voucher Program

The Authority serves as an administrator for HUD's Section 8 Housing Choice Voucher program, consisting of the voucher program as well as other tenant-based assistance programs. The Authority requisitions Section 8 funds, makes disbursements of funds to eligible participants, and recognizes administrative fee income. HUD changed the revenue recognition methodology, effective January 1, 2012, requiring the Authority to record a liability for the Authority's obligation for undisbursed funds to Section 8 participants. Program income and program expenses are recognized as pass-through grants, based upon the amount of allowable housing assistance payments (HAP) disbursements.

Prior to January 1, 2012, receipts and disbursements of the voucher program were recorded in totality as corresponding program income and program expense in the Statements of Revenues, Expenses and Changes in Net Assets. Excess HAP or administrative funds disbursed to the Authority were recorded as revenue and unrestricted net assets in the Statements of Net Assets. Cumulative excess HAP and administrative funds totaled $2,738,104 and $654,437, respectively, as of June 30, 2012 and $5,299,533 and $893,204, respectively, as of June 30, 2011. 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.

(q) Commonwealth Priority Housing Fund

The Commonwealth Priority Housing Fund, established by the 1988 Session of the Virginia General Assembly, uses funds provided by the Commonwealth in that Session to make loans and grants for a wide variety of housing initiatives. The Department of Housing and Community Development develops the program guidelines and the Authority acts as administrator for the Fund. The balances associated with the Commonwealth Priority Housing Fund are recorded in assets and liabilities in the amounts of $7,960,063 and $8,120,327 as of June 30, 2012 and 2011, respectively.

(r) ***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.

(s) ***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.

(t) ***Statements of Net Assets***

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

(u) ***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.

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

(3) Restricted Assets

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

Restricted assets as of June 30, 2012 and 2011 were as follows:

	June 30	
	2012	**2011**
Current assets:		
Cash and cash equivalents	$ 677,983,919	1,381,441,924
Investments	868,227	—
Interest receivable – investments	540,748	447,139
Mortgage and other loans receivable	175,125,398	164,681,060
Interest receivable – mortgage and other loans	35,555,714	37,213,059
Other real estate owned	26,944,266	45,339,820
Other assets	4,571,911	5,974,514
Total current assets	921,590,183	1,635,097,516
Noncurrent assets:		
Investments	124,179,493	106,991,478
Mortgage and other loans receivable	7,634,961,349	7,803,700,151
Less allowance for loan loss	152,850,790	119,132,375
Less net deferred loan fees	17,745,323	23,719,341
Mortgage and other loans receivable, net	7,464,365,236	7,660,848,435
Investment in rental property, net	69,058,381	58,338,543
Property, furniture, and equipment, less accumulated depreciation and amortization of $14,580,700 and $14,695,173, respectively	15,456,398	15,460,494
Unamortized bond issuance expenses	3,892,310	5,001,446
Total noncurrent assets	7,676,951,818	7,846,640,396
Total restricted assets	$ 8,598,542,001	9,481,737,912

(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	2.00% to 13.70%	Thirty years
Homeownership Mortgage Bond Group	2.75% to 5.88%	Thirty years

Commitments to fund new loans and monies available to provide future loans were as follows at June 30, 2012:

		Committed	Uncommitted
General Operating Loan Programs	$	8,954,942	—
VHDA General Purpose Bond Group		—	—
Rental Housing Bond Group		109,405,729	—
Commonwealth Mortgage Bond Group		124,947,440	11,730,492
Homeownership Bond Group		—	50,650,250
Total	$	243,308,111	62,380,742

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, 2012 and 2011, the carrying amount of the Authority's deposits was $72,663,980 and $169,508,196 respectively. The associated bank balance of the Authority's deposits was $71,414,368 and $172,003,480 at June 30, 2012 and 2011, 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, 2012 and 2011, total cash equivalents were $608,996,604 and $1,221,601,716, respectively.

(Continued)

Investments as of June 30, 2012 and 2011 are classified in the statements of net assets as follows:

		June 30	
		2012	**2011**
Current investments	$	3,711,993	4,523,890
Noncurrent investments		193,714,399	159,697,319
Total investments	$	197,426,392	164,221,209

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, 2012, 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	$	868,227	—	—	—	868,227
Municipal securities		13,152,766	5,063,930	—	—	18,216,696
Asset-backed securities		—	—	—	27,836,860	27,836,860
Agency-mortgage backed securities		—	—	—	160,813,609	160,813,609
US Government & Agency Securities		169,926,700	—	—	—	169,926,700
Money market securities		427,366,300	—	—	—	427,366,300
Other interest-bearing securities		1,394,604	—	—	—	1,394,604
Total investments	$	612,708,597	5,063,930	—	188,650,469	806,422,996

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
US Government & Agency Securities		—				—
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

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparties to an investment will not fulfill its obligations. The Authority places emphasis on securities of high credit quality and marketability. The following table presents investment exposure to credit risk by investment type as of June 30, 2012:

Investment type	Amount	S & P/ Moody's rating	Percentage of total investments
Money Market Securities	$ 426,866,300	P-1	52.93%
U S Government & Agency	169,926,700	Aaa	21.07%
Agency Mortgage Backed Securities	160,813,609	Aaa	19.94%
Asset Backed Securities	18,766,710	Caa1	2.33%
Municipal Securities	10,309,000	NR	1.28%
Municipal Securities	6,013,153	Aaa	0.74%
Asset Backed Securities	3,676,416	Caa2	0.46%
Asset Backed Securities	1,641,489	Ba2	0.20%
Municipal Securities	1,525,995	Aa1	0.19%
Asset Backed Securities	1,524,020	Caa3	0.19%
Other Interest Bearing Instruments	1,394,604	Aaa	0.17%
Asset Backed Securities	884,700	A1	0.11%
Asset Backed Securities	869,128	Ca	0.11%
Corporate Notes	868,227	A2	0.11%
Money Market Securities	500,000	Aaa	0.06%
Asset Backed Securities	474,397	Baa2	0.06%
Municipal Securities	368,548	Aa2	0.05%
Total investments	$ 806,422,996		100.00%

(6) Property, Furniture, and Equipment

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

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

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

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

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)

 (Continued)

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2012 and 2011 and changes for the year ended June 30, 2012 were as follows:

Description	Balance at June 30, 2011	Issued	Retired	Balance at June 30, 2012
	(Dollar amounts shown in thousands)			
General operating accounts:				
Revolving line of credit:				
Bank of America floating daily rate (rate of 1.193% at June 30, 2012) termination date of December 1, 2012	$ 40,000	84,500	50,000	74,500
Federal Home Loan Bank floating daily rate (rate of 0.26% at June 30, 2012) no fixed maturity	494,171	469,365	928,536	35,000
Total general operating accounts	$ 534,171	553,865	978,536	109,500
Rental housing bond group:				
2001 Series A/B, dated January 9, 2001, 5.80% effective interest rate, final due date March 1, 2025	12,970	—	12,970	—
2001 Series C/D, dated March 22, 2001, 5.25% effective interest rate, final due date June 1, 2024	6,790	—	6,790	—
2001 Series E/F/G, dated April 26, 2001, 5.32% effective interest rate, final due date June 1, 2025	10,280	—	10,280	—
2001 Series H/I, dated July 31, 2001, 5.25% effective interest rate, final due date July 1, 2025	39,250	—	39,250	—
2001 Series J/K/L, dated October 23, 2001, 6.06% effective interest rate, final due date December 1, 2025	49,460	—	49,460	—
2001 Series M, dated December 18, 2001, 6.78% effective interest rate, final due date January 1, 2027	35,105	—	35,105	—

Description		Balance at June 30, 2011	Issued	Retired	Balance at June 30, 2012
		(Dollar amounts shown in thousands)			
2001 Series N/O, dated December 18, 2001, 5.40% effective interest rate, final due date January 1, 2027	$	29,660	—	29,660	—
2002 Series A, dated April 11, 2002, 6.70% effective interest rate, final due date April 1, 2027		19,360	—	19,360	—
2002 Series B, dated April 11, 2002, 5.30% effective interest rate, final due date April 1, 2027		35,205	—	35,205	—
2002 Series C/D, dated June 27, 2002, 5.21% effective interest rate, final due date September 1, 2027		53,915	—	53,915	—
2002 Series E/F/G, dated December 19, 2002, 3.83% effective interest rate, final due date January 1, 2028		63,750	—	61,280	2,470
2003 Series A/B, dated April 24, 2003, 4.56% effective interest rate, final due date June 1, 2028		44,960	—	23,500	21,460
2003 Series C/D, dated August 5, 2003, 3.87% effective interest rate, final due date November 1, 2028		46,455	—	2,975	43,480
2003 Series E, dated Agust 5, 2003, 4.84% effective interest rate, final due date November 1, 2028		64,510	—	3,145	61,365
2003 Series F/G, dated December 23, 2003, 5.42% effective interest rate, final due date April 1, 2030		44,225	—	1,465	42,760
2004 Series A/B, dated March 17, 2003, 5.25% effective interest rate, final due date March 1, 2030		14,920	—	485	14,435
2004 Series C, dated April 29, 2004, 5.53% effective interest rate, final due date May 1, 2029		63,430	—	2,180	61,250

(Continued)

Description		Balance at June 30, 2011	Issued	Retired	Balance at June 30, 2012
		(Dollar amounts shown in thousands)			
2004 Series D/E, dated April 29, 2004, 4.72% effective interest rate, final due date May 1, 2029	$	44,940	—	1,690	43,250
2004 Series F/G, dated September 2, 2004, 5.78% effective interest rate, final due date September 1, 2030		50,570	—	1,445	49,125
2004 Series H/I/J, dated December 16, 2004, 5.10% effective interest rate, final due date December 1, 2029		34,565	—	1,250	33,315
2005 Series A, dated April 26, 2005, 5.37% effective interest rate, final due date May 1, 2030		35,235	—	1,365	33,870
2005 Series B/C, dated April 26, 2005, 4.58% effective interest rate, final due date May 1, 2031		54,090	—	2,490	51,600
2005 Series D, dated June 14, 2005, 5.52% effective interest rate, final due date September 1, 2033		38,635	—	950	37,685
2005 Series E/F, dated June 14, 2005, 4.60% effective interest rate, final due date September 1, 2039		42,635	—	785	41,850
2005 Series G, dated October 20, 2005, 5.30% effective interest rate, final due date December 1, 2030		83,385	—	2,595	80,790
2005 Series H/I, dated October 20, 2005, 4.45% effective interest rate, final due date December 1, 2030		35,530	—	1,280	34,250
2005 Series J/K, dated December 14, 2005, 5.30% effective interest rate, final due date February 1, 2035		37,140	—	975	36,165

(Continued)

Description	Balance at June 30, 2011	Issued	Retired	Balance at June 30, 2012
	(Dollar amounts shown in thousands)			
2006 Series A, dated May 23, 2006, 4.89% effective interest rate, final due date April 1, 2033	$ 8,085	—	220	7,865
2006 Series B, dated October 31, 2006, 4.68% effective interest rate, final due date November 1, 2038	22,595	—	425	22,170
2006 Series C, dated December 12, 2006, 5.95% effective interest rate, final due date January 1, 2039	43,675	—	635	43,040
2006 Series D/E/F, dated December 12, 2006, 4.52% effective interest rate, final due date January 1, 2039	79,060	—	1,535	77,525
2007 Series A, dated June 12, 2007, 6.03% effective interest rate, final due date July 1, 2039	117,395	—	1,475	115,920
2007 Series B/C, dated September 20, 2007, 6.16% effective interest rate, final due date November 1, 2038	22,935	—	400	22,535
2008 Series A, dated March 27, 2008, 5.63% effective interest rate, final due date April 1, 2038	194,360	—	3,075	191,285
2009 Series A, dated February 26, 2009, 6.86% effective interest rate, final due date March 1, 2039	71,865	—	1,090	70,775
2009 Series B, dated March 26, 2009, 5.53% effective interest rate, final due date June 1, 2043	28,655	—	405	28,250
2009 Series C/D, dated March 30, 2009, 5.81% effective interest rate, final due date February 1, 2021	334,490	—	27,710	306,780
2009 Series E, dated September 24, 2009, 4.72% effective interest rate, final due date October 1, 2044	52,185	—	2,675	49,510

(Continued)

Description		Balance at June 30, 2011	Issued	Retired	Balance at June 30, 2012
		(Dollar amounts shown in thousands)			
2009 Series F, dated November 25, 2009, 4.85% effective interest rate, final due date December 1, 2044	$	49,370	—	1,225	48,145
2010 Series A, dated March 23, 2010, 4.81% effective interest rate, final due date April 1, 2045		21,005	—	650	20,355
2010 Series B, dated April 27, 2010, 4.74% effective interest rate, final due date June 1, 2045		22,750	—	245	22,505
2010 Series C, dated July 28, 2010, 4.62% effective interest rate, final due date August 1, 2045		11,790	—	—	11,790
2010 Series D, dated August 26, 2010, 4.30% effective interest rate, final due date September 1, 2040		33,000	—	—	33,000
2010 Series E, dated October 7, 2010, 4.177% effective interest rate, final due date October 1, 2045		38,405	—	—	38,405
2010 Series F, dated December 2, 2010, 4.85% effective interest rate, final due date January 1, 2041		19,700	—	—	19,700
2011 Series A, dated May 24, 2011 4.93% effective interest rate, final due date May 1, 2041		11,700	—		11,700
2011 Series B, dated September 27, 2011, 4.21% effective interest rate, final due date October 1, 2041		—	17,480		17,480
2011 Series C, dated December 8, 2011, 4.25% effective interest rate, final due date December 1, 2038		—	19,500	—	19,500
2011 Series D, dated December 8, 2011, 4.933% effective interest rate, final due date January 1, 2039		—	155,800	—	155,800
2011 Series E, dated December 22, 2011, 4.348% effective interest rate, final due date March 1, 2028		—	156,115	—	156,115

Description	Balance at June 30, 2011	Issued	Retired	Balance at June 30, 2012
	(Dollar amounts shown in thousands)			
2012 Series A, dated February 28, 2012, 3.63% effective interest rate, final due date March 1, 2042		35,000		35,000
	$ 2,273,990	383,895	443,615	2,214,270
Unamortized premium	6,328			4,941
Total rental housing bonds	2,280,318			2,219,211
General purpose bonds group:				
2002 Series W, dated October 31, 2002, 5.91% effective interest rate, final due date January 1, 2028	61,050	—	61,050	—
2002 Series X/Y/Z, dated October 31, 2002, 4.86% effective interest rate, final due date January 1, 2043	179,200	—	26,690	152,510
2003 Series Q, dated October 30, 2003, 5.65% effective interest rate, final due date October 1, 2028	24,800	—	850	23,950
2003 Series R/S/T/U, dated October 30, 2003 4.68% effective interest rate, final due date October 1, 2038	60,860	—	1,320	59,540
2003 Series V, dated June 26, 2003 4.32% effective interest rate, final due date October 1, 2029	27,775	—	1,950	25,825
	$ 353,685	—	91,860	261,825
Unamortized premium	1,938			1,756
Total VHDA general purpose bonds	355,623			263,581
Commonwealth mortgage bonds group:				
2001 Series A, dated January 30, 2001, 6.64% effective interest rate, final due date February 25, 2030	$ 1,015	—	1,015	—

Description		Balance at June 30, 2011	Issued	Retired	Balance at June 30, 2012
		(Dollar amounts shown in thousands)			
2001 Series H, dated October 18, 2001, 5.37% effective interest rate, final due date July 1, 2036	$	183,000	—	183,000	—
2002 Series A, dated January 14, 2002, 6.60% effective interest rate, final due date February 25, 2032		5,277	—	5,277	—
2002 Series B, dated March 20, 2002, 6.17% effective interest rate, final due date August 25, 2030		21,988	—	2,966	19,022
2002 Series E/F/G, dated December 17, 2002, 5.15% effective interest rate, final due date December 25, 2032		19,735	—	2,268	17,467
2003 Series C, dated October 1, 2003, 5.10% effective interest rate, final due date August 25, 2033		1,570	—	255	1,315
2004 Series A, dated March 18, 2004, 4.30% effective interest rate, final due date October 1, 2029		110,880	—	10,490	100,390
2004 Series B, dated June 10, 2004, 5.63% effective interest rate, final due date June 25, 2034		4,897	—	777	4,120
2004 Series C, dated November 2, 2004, 4.21% effective interest rate, final due date January 1, 2031		116,610	—	11,190	105,420
2005 Series A, dated April 21, 2005, 4.31% effective interest rate, final due date October 1, 2031		303,010	—	33,200	269,810
2005 Series B, dated April 21, 2005, 4.92% effective interest rate, final due date July 1, 2042		46,120	—	—	46,120

Description	Balance at June 30, 2011	Issued	Retired	Balance at June 30, 2012
	(Dollar amounts shown in thousands)			
2005 Series C/D/E, dated November 3, 2005, 4.41% effective interest rate, final due date October 1, 2032	$ 336,670	—	28,100	308,570
2006 Series AB, dated April 27, 2006, 5.86% effective interest rate, final due date March 25, 2036	7,263	—	652	6,611
2006 Series C, dated June 8, 2006, 6.15% effective interest rate, final due date June 25, 2034	35,935	—	5,199	30,736
2006 Series D/E/F, dated July 13, 2006 4.59% effective interest rate, final due date January 1, 2033	482,205	—	38,700	443,505
2007 Series A/B/C/D, dated May 18, 2007 4.80% effective interest rate, final due date January 1, 2036	936,625	—	40,815	895,810
2008 Series A, dated March 25, 2008, 6.06% effective interest rate, final due March 25, 2038	66,327	—	8,866	57,461
2008 Series B, dated April 10, 2008, 6.09% effective interest rate, final due date March 25, 2038	98,896	—	14,538	84,358
2008 Series C, dated November 18, 2008, 6.39% effective interest rate, final due date June 25, 2038	38,662	—	5,425	33,237
2008 Series D/E, dated December 16, 2008, 6.10% effective interest rate, final due date January 1, 2036	187,910	—	7,155	180,755
2009 Series A, dated November 25, 2009, 4.52% effective interest rate, final due date July 1, 2029	51,750	—	—	51,750
	3,056,345	—	399,888	2,656,457
Unamortized premium	21,998			24,269
Total commonwealth mortgage bonds group	$ 3,078,343			2,680,726

Description	Balance at June 30, 2011	Issued	Retired	Balance at June 30, 2012
	(Dollar amounts shown in thousands)			
Homeownership mortgage bonds group:				
2009 Series B, dated December 23, 2009, 0.184% effective interest rate, final due date November 1, 2041	$ 111,970	—	111,970	—
2009 Series B-1, dated February 10, 2010, 4.42% effective interest rate, final due date November 1, 2041	160,990	—	9,600	151,390
2010 Series A, dated February 10, 2010, 3.38% effective interest rate, final due date September 1, 2021	104,130	—	—	104,130
2009 Series B-2, dated October 29, 2010, 3.16% effective interest rate, final due date November 1, 2041	105,000	—	6,000	99,000
2010 Series B, dated October 29, 2010, 2.948% effective interest rate, final due date March 1, 2022	67,500	—	—	67,500
2011 Series B-3, dated June 14, 2011 3.71% effective interest rate, final due date November 1, 2041	105,000	—	2,400	102,600
2011 Series A, dated June 14, 2011 3.27% effective interest rate, final due date March 1, 2024	70,000	—	—	70,000
2009 Series B-4, dated September 27, 2011, 2.68% effective interest rate, final due date November 1, 2041	—	111,970	—	111,970
2011 Series B, dated September 27, 2011, 3.09% effective interest rate, final due date September 1, 2024	—	74,650	—	74,650
	724,590	186,620	129,970	781,240
Unamortized (discount) premium	(675)			416
Total homeownership mortgage bonds group	$ 723,915			781,656
Total	$ 6,972,370			6,054,674

(Continued)

Notes and bonds payable at June 30, 2011 and 2010 and changes for the year ended June 30, 2011 were summarized as follows (amounts in thousands):

		June 30, 2010	Issued	Retired	Change in unamortized premium and compound interest payable	June 30, 2011
General operating accounts	$	327,990	326,913	120,732	—	534,171
Rental housing bond group		2,423,313	115,074	260,394	2,325	2,280,318
Homeownership mortgage bond group		589,838	350,000	215,700	(223)	723,915
VHDA General purpose bond group		401,099	—	45,585	109	355,623
Commonwealth mortgage bond group		3,325,352	—	250,404	3,395	3,078,343
Total	$	7,067,592	791,987	892,815	5,606	6,972,370

Current and noncurrent amounts of notes and bonds payable at June 30, 2012 and 2011 were as follows:

		June 30 2012	June 30 2011
		(Amount in thousands)	
Notes and bonds payable – current	$	388,378	822,573
Bonds payable – noncurrent		5,666,296	6,149,797
Total	$	6,054,674	6,972,370

From time to time, the Authority has participated in refundings, in which new debt is issued and the proceeds are used to redeem, generally within ninety days, previously issued debt. Related discounts or premiums previously deferred are recognized in income or expense, respectively. There were no refundings for the years ended June 30, 2012 and 2011.

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, 2012 and thereafter are as follows:

Year ending June 30	Original principal	Current interest	Total debt service
2013	$ 388,377,856	276,409,506	664,787,362
2014	271,400,000	264,007,815	535,407,815
2015	265,995,000	253,607,786	519,602,786
2016	265,070,000	242,861,950	507,931,950
2017	262,430,000	231,882,225	494,312,225
2018 – 2022	1,235,485,000	984,034,731	2,219,519,731
2023 – 2027	997,540,000	719,157,687	1,716,697,687
2028 – 2032	987,292,004	466,171,500	1,453,463,504
2033 – 2037	750,037,878	244,716,771	994,754,649
2038 – 2042	552,234,250	59,061,170	611,295,420
2043 – 2047	47,430,000	3,759,346	51,189,346
Total	$ 6,023,291,988	3,745,670,487	9,768,962,475

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, 2012 unless extended by Bank of America and the Authority. All amounts outstanding are due and payable on the termination date. Interest on any advances is charged at a rate equal to the daily floating LIBOR rate for deposits with one month maturity plus a margin ranging from 95 to 125 basis points per annum based upon the Authority’s long-term credit ratings. The Authority is in compliance with all debt covenant requirements. At June 30, 2012 and 2011, there were $74.5 million and $40.0 million amounts outstanding, respectively.

The Authority has a $150 million revolving credit agreement with the Bank of Nova Scotia to provide funds for general corporate purposes. The term of the agreement expires on November 28, 2013. Interest on any advances is charged at rate equal to the daily floating LIBOR rate for deposits with one month maturity plus a margin ranging from 25 basis points to 150 basis points, based upon the Authority’s long-term credit ratings and the duration outstanding. All amounts outstanding on the terminated date or upon written request of the Authority may be converted into a 5 year term. At June 30, 2012 and 2011, 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 0.26% on June 30, 2012 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, 2012, $35.0 million was outstanding and $494.2 million was outstanding at June 30, 2011.

(Continued)

(8) Escrows and Project Reserves

Escrows and project reserves represent amounts held by the Authority as escrows for insurance, real estate taxes and completion assurance, and as reserves for replacement and operations (note 14). The Authority invests these funds and, for project reserves, allows earnings to accrue to the benefit of the mortgagor. At June 30, 2012 and 2011, these escrows and project reserves were presented in the Authority's Statements of Net Assets as follows:

	June 30 2012	June 30 2011
Escrows – current	$ 45,156,796	44,752,270
Project reserves – noncurrent	139,385,475	166,442,678
Total	$ 184,542,271	211,194,948

(9) Derivative Instruments

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

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

Counterparty Rating	Count	Par	Concen-tration	Notional Amount	Market Value	Fair Value Asset (Liability)
BBB/Baa2	1	$ 1,600,000	2.5%	$ 1,636,500	$ 1,652,320	$ (15,820)
A/A2	2	10,500,000	16.6%	10,795,312	10,909,600	(114,288)
BBB/Baa2	1	1,400,000	2.2%	1,463,219	1,488,340	(25,121)
AA-/A2	5	26,100,000	41.2%	27,553,758	27,765,110	(211,352)
A-/Baa2	2	3,300,000	5.2%	3,425,250	3,467,230	(41,980)
BBB+/A2	3	3,900,000	6.2%	4,033,126	4,128,990	(95,864)
BBB/Baa3	2	16,500,000	26.1%	17,404,688	17,536,650	(131,962)
	16	$ 63,300,000	100.0%	$ 66,311,853	$ 66,948,240	$ (636,387)

There were no outstanding forward contracts as of June 30, 2011.

(10) Investment Income and Arbitrage Liabilities

The amount of investment income the Authority may earn with respect to certain tax-exempt bond issues in the Commonwealth Mortgage Bond Group, Homeownership Bond Group, Rental Housing Bond Group, and VHDA General Purpose Bond Group is limited by certain federal legislation. Earnings in excess of the allowable amount must be rebated to the U.S. Department of the Treasury. These excess earnings are recorded in accounts payable and other liabilities. Rebates paid were $1,809,583 and $389,133 for the years ended June 30, 2012 and 2011, respectively. Remaining liability balances were $47,173 and $2,025,383 at June 30, 2012 and 2011, respectively.

(11) 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 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, 2012 and 2011, such plans included funds to be available for other loans and loan commitments; for over commitments and over allocations in the various bond issues; for support funds and contributions to bond issues; and for working capital and future operating and capital expenditures. Additional unrestricted net assets commitments include maintenance of the Authority’s obligation with regard to the general obligation pledge on its bonds; contributions to future bond issues other than those scheduled during the next year; coverage on the uninsured, unsubsidized multi-family conventional loan program and any unanticipated losses in connection with the uninsured portions of the balance of the single-family and multi-family loans; coverage on the liability exposure of commissioners and officers; the cost of holding foreclosed property prior to resale; costs incurred with the redemption of bonds; single-family loan prepayment shortfalls; and other risks and contingencies.

(12) Employee Benefits Plans

The Authority incurs employment retirement savings expense under two defined contribution plans equal to between 8%-11% of full-time employees’ compensation. Total retirement savings expense for the years ended June 30, 2012 and 2011 was $2,729,698 and $2,584,237 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, 2012 and 2011, included in other liabilities, is an employee compensated absences accrual of $4,261,506 and $4,050,459, respectively (note 14).

(13) Other Post-Employment Benefits

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 used solely for providing benefits to eligible participants in the RHC. Contributions by the Authority are discretionary. 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, 2012, there were approximately 58 participating retirees and spouses and 297 active employees earning service credits in the RHC.

The Authority currently contributes amounts to the RHC Trust sufficient to fully fund the annual required contribution (ARC), an actuarially determined rate in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year plus an amortized amount of unfunded actuarial liabilities (or fund excess) over a period not to exceed thirty years. The ARC for the fiscal year ended June 30, 2012 of $504,032 was approximately 2.0% 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, 2008	$ —	753,288	—	—	12.41	753,288
June 30, 2009	(29,738)	895,410	(2,082)	2,316	12.84	895,644
June 30, 2010	(106,007)	964,000	(6,625)	5,038	21.04	962,413
June 30, 2011	(39,238)	980,913	(2,452)	1,865	21.04	980,325
June 30, 2012	(8,913)	504,032	(557)	437	21.04	503,912

The OPEB cost to the Authority and its contributions and changes in the RHC plan for fiscal years 2008 through 2012 are as follows:

Fiscal year-end	Beginning net OPEB obligation (asset)	Annual OPEB cost	Contribution	Change in net OPEB obligation (asset)	Net OPEB obligation (asset) balance
June 30, 2008	$ —	753,288	(783,026)	(29,738)	(29,738)
June 30, 2009	(29,738)	895,644	(971,913)	(76,269)	(106,007)
June 30, 2010	(106,007)	962,413	(895,644)	66,769	(39,238)
June 30, 2011	(39,238)	980,325	(950,000)	30,325	(8,913)
June 30, 2012	(8,913)	503,912	(1,054,730)	(550,818)	(559,731)

For the year ended June 30, 2012, the Authority's Annual OPEB cost was $503,912; the percentage of Annual OPEB Cost Contribution was 195%; and the ending net OPEB asset was $559,731. For the year ended June 30, 2011, the Authority's Annual OPEB cost was $980,325; the percentage of Annual OPEB Cost Contribution was 97%; and the ending net OPEB asset was $8,913.

As of December 31, 2011, the unfunded actuarial accrued liability (UAAL) for benefits was $1,504,155. The covered payroll (annual payroll of active employees covered by the RHC) was $24,701,597 and the ratio of the UAAL to the covered payroll was 6.1%. As of December 31, 2011, the actuarial value of net assets held by the RHC Trust was $13,653,900, the actuarial accrued liability was $15,158,055, and the funded ratio was 90.1%. As of June 30, 2012, the RHC Trust had $14,241,647 in net assets. 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 December 31, 2011 actuarial assumptions include a 6.25% long term investment rate of return per annum and a 3.5% payroll growth rate. The projected healthcare cost trend is 8.0% initially, reduced by decrements to an ultimate rate of 5.0% after 6 years. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The UAAL was amortized over 30 years in calculating the fiscal year 2012 ARC.

(Continued)

(14) Other Long-Term Liabilities

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

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

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

(15) 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 does not expect such amounts, if any, to be material in relation to its basic financial statements.

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

(16) Subsequent Events

In addition to scheduled issuances and redemptions, the Authority made issuances and redemptions of notes and bonds payable subsequent to June 30, 2012 as follows:

	Issuance / redemption date		Amount
Issues:			
Bank of America, N.A., Revolving Credit Agreement	July 3, 2012	$	2,000,000
Bank of America, N.A., Revolving Credit Agreement	July 24, 2012		2,000,000
Bank of America, N.A., Revolving Credit Agreement	August 1, 2012		1,000,000
Bank of America, N.A., Revolving Credit Agreement	August 8, 2012		1,000,000
Bank of America, N.A., Revolving Credit Agreement	August 9, 2012		1,000,000
Bank of America, N.A., Revolving Credit Agreement	August 21, 2012		3,500,000
Rental Housing Bonds, 2012 Series B	August 21, 2012		114,075,000
Bank of America, N.A., Revolving Credit Agreement	September 5, 2012		500,000
Redemptions:			
Rental Housing Bonds, 2003 Series B	September 1, 2012		21,460,000
VHDA General Purpose Bonds, 2002 Series Y	September 1, 2012		12,675,000
VHDA General Purpose Bonds, 2002 Series Z	September 1, 2012		26,000,000

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
December 31, 2011	13,653,900	15,158,055	1,504,155	90.1	24,701,597	6.1

The required schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

As of December 31, 2011, the unfunded actuarial accrued liability (UAAL) for benefits was $1,504,155. The covered payroll (annual payroll of active employees covered by the RHC) was $24,701,597 and the ratio of the UAAL to the covered payroll was 6.1%. As of December 31, 2011, the actuarial value of net assets held by the RHC Trust was $13,653,900, the actuarial accrued liability was $15,158,055, and the funded ratio was 90.1%. As of June 30, 2012, the RHC Trust had $14,241,647 in net assets. 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 December 31, 2011 actuarial assumptions include a 6.25% long term investment rate of return per annum and a 3.5% payroll growth rate. The projected healthcare cost trend is 8.0% initially, reduced by decrements to an ultimate rate of 5.0% after 6 years. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The UAAL was amortized over 30 years in calculating the fiscal year 2012 ARC.

See accompanying independent auditors’ report.

Schedule 2

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

Combining Schedule of Net Assets

June 30, 2012

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

(Continued)

Schedule 2

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

Combining Schedule of Net Assets

June 30, 2012

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

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, 2012

	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 receivable	$ 4,092,714	208,349,006	29,980,525	219,045,082	27,813,259	489,280,586
Pass-through grants income	119,608,753	—	—	—	—	119,608,753
Housing Choice Voucher program income	36,616,431	—	—	—	—	36,616,431
Investment in rental property income	—	11,206,327	3,108,516	—	—	14,314,843
Gains and recoveries on sale of other real estate owned	—	13,210,104	1,942,869	2,758,570	—	17,911,543
Other	9,491,024	850,699	780,657	1,190,992	—	12,313,372
Total operating revenues	169,808,922	233,616,136	35,812,567	222,994,644	27,813,259	690,045,528
Operating expenses:						
Interest on notes and bonds payable	1,237,449	118,053,603	14,897,691	136,776,818	25,178,241	296,143,802
Salaries and related employee benefits	34,530,859	—	—	—	—	34,530,859
General operating expenses	19,118,047	—	—	—	—	19,118,047
Note and bond expenses	393,428	—	—	—	—	393,428
Amortization of bond issuance expenses	6,250	490,506	213,138	92,657	41,104	843,655
Pass-through grants expenses	119,608,753	—	—	—	—	119,608,753
Housing Choice Voucher program expenses	39,416,626	—	—	—	—	39,416,626
External mortgage servicing expenses	921,342	—	1,170	—	—	922,512
Investment in rental property expenses	—	13,537,012	3,759,919	—	—	17,296,931
Losses and expenses on other real estate owned	806,360	7,207,017	3,136,283	48,888,867	166,083	60,204,610
Provision for loan losses	(1,907,652)	(5,083,180)	1,259,732	35,408,645	2,133,218	31,810,763
Total operating expenses	214,131,462	134,204,958	23,267,933	221,166,987	27,518,646	620,289,986
Operating income (expense)	(44,322,540)	99,411,178	12,544,634	1,827,657	294,613	69,755,542
Nonoperating revenues (expenses):						
Investment income	6,372,109	314,284	116,445	10,576,532	406,612	17,785,982
Unrealized loss on derivative instruments	—	—	—	(636,387)	—	(636,387)
Other, net	59,864	—	—	—	—	59,864
Total nonoperating revenues, net	6,431,973	314,284	116,445	9,940,145	406,612	17,209,459
Income (loss) before transfers	(37,890,567)	99,725,462	12,661,079	11,767,802	701,225	86,965,001
Transfers between funds	(17,018,712)	73,049,218	7,053,045	(68,110,074)	5,026,523	—
Change in net assets	(54,909,279)	172,774,680	19,714,124	(56,342,272)	5,727,748	86,965,001
Total net assets, beginning of year	153,913,783	628,000,194	163,645,311	1,360,246,967	12,376,829	2,318,183,084
Total net assets, end of year	$ 99,004,504	800,774,874	183,359,435	1,303,904,695	18,104,577	2,405,148,085

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, 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

(Continued)

Schedule 4

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 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, 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 receivable	$	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 payable		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.

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Richmond, VA 23219-4023

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, 2012, and have issued our report thereon dated September 12, 2012. 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

Management of the Authority is responsible for establishing and maintaining effective 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 our opinion on the 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 was not designed to 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*.

We noted certain matters that we intend to report to management of the Authority in a separate letter.

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 12, 2012