



**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, 2014 and 2013

(With Independent Auditors' Reports Thereon)

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

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# VIRGINIA HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis (unaudited)

June 30, 2014 and 2013

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, 2014 and 2013. 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 (the Commonwealth), 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 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.

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 in Virginia (REACH) initiatives, in which grants are made or the interest rates on loans are subsidized by the Authority, principally for the elderly, disabled, homeless, and other low-income persons. The amount of net position used to provide such grants or reduced interest rates on mortgage loans or otherwise subsidize its programs is equal to 20% of the average of the Authority's change in net position, as unadjusted for the effect of Governmental Accounting Standards Board (GASB) No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, for the preceding five fiscal years. The Authority may use a higher amount if determined to be appropriate. The amounts made available to provide reduced interest rates on mortgage loans or otherwise provide housing subsidies, including grants, under its programs are subject to review by the Authority of the impact on its financial position. The Authority finances some, but not all, of such subsidized mortgage loans, in whole or in part, with funds under its various bond resolutions.

## Financial Statements

The Authority adopted GASB statement No. 65 effective July 1, 2013, which changed the accounting for certain loan origination fees and costs of bond issuance. As a consequence, the Authority has restated net position as of June 30, 2012 by approximately \$7.0 million to reflect the accounting changes. Additionally, the financial activity for the year ending June 30, 2013 has also been modified to reflect the changes in accounting to allow comparability.

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

The *Statements of Net Position* report all of the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, presented in order of liquidity and using the accrual

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basis of accounting in conformity with U.S. generally accepted accounting principles. The difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources is presented as net position, and is displayed in three components: net investment in capital assets; restricted portion of net position; and unrestricted portion of net position. Net position is restricted when external constraints are placed upon their use, such as bond indentures, legal agreements or statutes. Over time, changes in net position may serve as a useful indicator of whether the financial status of the Authority is improving or deteriorating.

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

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

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

## **Financial Highlights**

### *Overview*

The Authority has successfully sustained its loan programs and services and improved its financial condition despite prolonged federal intervention in the housing and capital markets, higher than normal levels of delinquencies, foreclosures and loan losses, and nominal investment earnings. Net position has increased by approximately 5% for 2014 and 4% for both 2013 and 2012, bringing total net position as of June 30, 2014 to \$2,643.6 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 & Poor's Ratings Services (Standard & Poor's) and Moody's Investors Services (Moody's) rating agencies continue to rate the Authority with an AA+ issuer credit rating and Aa1 general obligation credit rating, respectively.

In its single family homeownership 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 issuance of taxable bonds and through securitization of federally insured and guaranteed loans by the issuance of Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA) securities. The Authority also offers through GNMA securitization, Federal Housing Administration (FHA) insured and Veterans Administration (VA) guaranteed single family loans that refinanced existing FHA insured and VA guaranteed loans under the FHA and VA streamline refinance programs. The Authority also participates in the FNMA Housing Finance Agency (HFA) Preferred Risk Sharing Program that has allowed the Authority to finance \$146.0 million of single family mortgage loans without mortgage insurance and, unlike tax-exempt bonds, permits the funding of refinancing loans and loans to borrowers who are not first time homebuyers. Additionally, the Authority developed a Rapid Refinance product which allowed borrowers with interest only loans totaling \$188.5 million to refinance their loans into fixed rate 30

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year mortgages. 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 various options, including loan modifications, to prevent foreclosure for otherwise responsible single family borrowers encountering financial hardships. As long as employment levels, wages, and housing values remain slow to recover in Virginia, challenges for the Authority's single family borrowers are expected to continue. Additionally, the Authority has provided substantial support to the Commonwealth's foreclosure prevention taskforce and housing policy initiatives, and its homeownership education, underwriting and loss mitigation practices continue to help lessen delinquencies and foreclosures to levels below those for Virginia and the nation.

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

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

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

### ***Year Ended June 30, 2014***

Single family loan originations totaled 4,398 in FY 2014 compared to 4,341 for the same period last year, an increase of 1.3%. The amount of single family mortgage loan production was \$756.6 million, an increase of \$60.6 million, or 8.7%. Much of the increase was related to the new Rapid Refinance product and the FNMA HFA Preferred Risk Sharing product.

As of June 30, 2014, the Authority serviced 56,181 first and second single family mortgage loans with outstanding balances totaling \$5.0 billion. The number of loans serviced, increased since June 30, 2013 by 628 or 1.1%, primarily in the form of FHA guaranteed mortgages with corresponding second mortgages. The outstanding loan balances also increased by \$36.2 million or 0.7% as of the same date.

In FY 2014, there were 690 foreclosures valued at \$84.4 million or 2.1% of the single-family loan portfolio, compared to a year ago with 652 foreclosures valued at \$71.2 million or 1.6% of loan amounts. Recovery rates averaging 59.0% somewhat mitigated the impact of loan losses. Total delinquency rates on the servicing portfolio based on loan count averaged 12.2% for the current fiscal year, compared to 13.2% a year ago. Total delinquency rates on the servicing portfolio based on outstanding loan balances averaged 11.7% and 12.8% in the year ended June 30, 2014 and 2013, respectively. Delinquencies consist of first mortgage loans over 30 days past due, and foreclosures and bankruptcies.

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Financing commitments for 3,663 rental housing units were made during the fiscal year, totaling \$223.2 million, compared to 4,321 units totaling \$370.8 million for the same period a year ago. Rehabilitation of properties within the Authority's multi-family portfolio using taxable and tax-exempt funding and REACH funds and preservation of existing mortgage loans through extended period re-financings provided the majority production. The federal intervention in the housing market has continued to hamper the Authority's multi-family housing production.

As of June 30, 2014, the Authority serviced 1,378 multi-family mortgage loans with outstanding balances totaling \$3.4 billion. Compared to June 30, 2013, the number of loans in the portfolio decreased by 55 while loan balances increased by \$48.7 million or 1.5%. Delinquency rates based on portfolio loan count averaged 1.4% and 1.4% in the year ended June 30, 2014 and 2013, respectively. The average delinquency rates based on outstanding loan balances were 0.3% or \$8.9 million for the year ended June 30, 2014 compared to 0.3% or \$9.5 million for the same period a year ago.

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

Single family loan originations totaled 4,341 in FY 2013 compared to 2,866 for the same period last year, an increase of 51.5%. The amount of single family mortgage loan production was \$696.0 million, an increase of \$262.0 million, or 60.4%. Mortgage loan production increased year over year, despite a prolonged economic downturn, as Virginia recovered lost jobs at a much greater rate than the nation as a whole. Much of the increase was related to the new FNMA HFA Preferred Risk Sharing product and the FHA and VA streamline refinancing products.

As of June 30, 2013, the Authority serviced 55,553 first and second single family mortgage loans with outstanding balances totaling \$5.0 billion. The number of loans serviced, increased since June 30, 2012 by 734 or 1.3%, primarily in the form of FHA guaranteed mortgages with corresponding second mortgages. By contrast, the outstanding loan balances decreased by \$47.2 million or 0.9% as of the same date.

In FY 2013, there were 652 foreclosures valued at \$71.2 million or 1.6% of the single family loan portfolio, compared to a year ago with 724 foreclosures valued at \$93.6 million or 1.87% of loan amounts. Recovery rates averaging 60.3% somewhat mitigated the impact of loan losses. Total delinquency rates on the servicing portfolio based on loan count averaged 13.2% for the fiscal year, compared to 12.5% a year ago. Total delinquency rates on the servicing portfolio based on outstanding loan balances averaged 12.8% and 12.1% in the year ended June 30, 2013 and 2012, respectively. Delinquencies consist of first mortgage loans over 30 days past due, and foreclosures and bankruptcies.

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

As of June 30, 2013, the Authority serviced 1,433 multi-family mortgage loans with outstanding balances totaling \$3.3 billion. Compared to June 30, 2012, the number of loans in the portfolio decreased by 44 while loan balances decreased \$7.1 million or 0.2%. Delinquency rates based on portfolio loan count averaged 1.4% in both FY 2013 and FY 2012. The average delinquency rates based on outstanding loan balances were 0.3% or \$9.5 million in FY 2013 compared to 0.61% or \$20.2 million in FY 2012.

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Management's Discussion and Analysis (unaudited)

June 30, 2014 and 2013

## 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 resolutions, 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 enters into forward sales transactions to hedge changes in the fair value of mortgage loan inventory and commitments to originate mortgage loans, particularly when such mortgage loans are expected to be pooled into securities backed by GNMA or FNMA. The Authority does not enter into short sales or futures transactions for which a bona fide hedging purpose has not been established.

Mortgage and other loan receivables represent the Authority's principal assets. Mortgage loans are financed through a combination of proceeds of notes and bonds, GNMA and FNMA mortgage loan securitizations, and net position accumulated since inception. Mortgage loan payments received from mortgagors are used to pay debt service due on outstanding bonds 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 resolutions other than the Commonwealth Mortgage Bonds resolution, which is rated Aaa and AAA, by Moody's and Standard & Poor's, respectively.

Net position is comprised of net investment in capital assets, restricted and unrestricted portions of net position. *Net investment in capital assets* represents office buildings, land, furniture and equipment, and vehicles, less the outstanding applicable debt. *Restricted portion of net position* represents the portion of net position held in trust accounts for the benefit of the respective bond owners, subject to the requirements of the various bond resolutions. *Unrestricted portion of net position* represents a portion of net position that has been designated for a broad range of initiatives, such as administration of the Housing Choice Voucher (HCV) program, support for REACH initiatives, contributions to bond issues, working capital, future operating and capital expenditures, and general financial support to the Authority's loan programs.

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**Condensed Statements of Net Position**

(In millions)

		<b>June 30,</b>	
	<b>2014</b>	<b>2013 (as restated)</b>	<b>2012 (as restated)</b>
Cash and cash equivalents	\$ 501.0	1,132.8	681.7
Investments	256.3	272.0	197.4
Mortgage loans held for sale	31.2	18.2	—
Mortgage and other loans receivable, net	7,097.6	7,138.1	7,707.3
Other assets	128.9	138.1	168.6
<b>Total assets</b>	<b>8,015.0</b>	<b>8,699.2</b>	<b>8,755.0</b>
Notes and bonds payable, net	5,089.0	5,876.0	6,020.9
Other liabilities	282.4	312.4	322.0
<b>Total liabilities</b>	<b>5,371.4</b>	<b>6,188.4</b>	<b>6,342.9</b>
Net investment in capital assets	6.4	6.1	6.0
Restricted by bond indentures	2,509.9	2,370.4	2,318.9
Unrestricted	127.3	134.3	87.2
<b>Total net position</b>	<b>\$ 2,643.6</b>	<b>2,510.8</b>	<b>2,412.1</b>

***June 30, 2014 Compared to June 30, 2013***

Total assets decreased \$684.2 million, or 7.9% from the prior year. Cash and cash equivalents, and investments, combined, decreased \$647.5 million, or 46.1% from the prior year. Mortgage and other loans receivables, net, decreased by \$40.5 million, or 0.6%, primarily as a result of securitization of loans through GNMA and FNMA and transfers of loans to Real Estate Owned (REO) status.

Total liabilities decreased \$817.0 million, or 13.2% from the prior year. Notes and bonds payable decreased \$787.0 million or 13.4%, due primarily to bond redemptions. For the fiscal year, the Authority issued \$90.8 million in rental housing bonds, and \$183.6 million in commonwealth housing bonds; and \$310.0 million in short term escrow mode (STEM) commonwealth housing bonds converted to fixed rates. Additionally, \$279.5 million of draws and \$273.5 million in repayments were made on the notes and lines of credit to net to \$6.0 million used for the fiscal year. Bond principal pay downs and redemptions totaled \$1.1 billion, and included bond redemptions of \$784.8 million. Proceeds from the rental housing bond group and the commonwealth mortgage bond group and GNMA and FNMA mortgage loan securitizations were the principal source of funding for mortgage loan originations.

Total assets exceeded total liabilities by \$2,643.6 million, representing an increase in net position of \$132.8 million, or 5.3% from the prior year. As of June 30, 2014, net position invested in capital assets, net of related debt, was \$6.4 million. Net position restricted by bond resolutions totaled \$2,509.9 million, an increase of \$139.5 million, or 5.9% from the prior year. Unrestricted net position totaled \$127.3 million, a decrease of \$7.0 million, or 5.2%.

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Management's Discussion and Analysis (unaudited)

June 30, 2014 and 2013

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

Total assets decreased \$55.8 million, or 0.6% from the prior year. Cash and cash equivalents, and investments, combined, increased \$525.7 million, or 59.8% from the prior year. Mortgage and other loans receivables, net, decreased by \$569.2 million, or 7.4%, primarily as a result of securitization of loans through GNMA and FNMA and transfers of loans to Real Estate Owned (REO) status.

Total liabilities decreased \$154.5 million, or 2.4% from the prior year. Notes and bonds payable decreased \$144.9 million or 2.4%, due primarily to bond redemptions. For the year, the Authority issued \$656.2 million in rental housing bonds, \$160 million in single family mortgage bonds, and \$891.4 million in commonwealth mortgage bonds, of which \$560.0 million was short term escrow mode (STEM) bonds in which the interest rates thereon will convert to long-term fixed rates within a year. A net amount of \$41.5 million on notes and lines of credit was used for the year. Bond principal pay downs and redemptions totaled \$1.9 billion, and included bond redemptions of \$1.6 billion. Proceeds from the rental housing bond group and the commonwealth mortgage bond group and GNMA and FNMA mortgage loan securitizations were the principal source of funding for mortgage loan originations.

Total assets exceeded total liabilities by \$2,510.8 million, representing an increase in net position of \$98.7 million, or 4.1% from the prior year. As of June 30, 2013, net position invested in capital assets, net of related debt, was \$6.1 million. Net position restricted by bondholders totaled \$2,370.4 million, an increase of \$51.5 million, or 2.2% from the prior year. Unrestricted net position totaled \$134.3 million, an increase of \$47.1 million, or 54.0%.

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

(In millions)

	Year ended June 30,		
	2014	2013 (as restated)	2012 (as restated)
Operating revenues:			
Interest on mortgage and other loans	\$ 439.9	464.5	491.1
Pass-through grants received	119.7	127.7	119.6
Housing Choice Voucher program income	9.8	6.6	36.6
Other operating revenues	32.1	54.3	44.5
Total operating revenues	601.5	653.1	691.8
Operating expenses:			
Interest on notes and bonds payable	222.9	266.5	292.1
Pass-through grants disbursed	119.7	127.7	119.6
Housing Choice Voucher program expense	8.7	8.7	39.4
Other operating expenses	128.5	171.9	171.9
Total operating expenses	479.8	574.8	623.0
Operating income	121.7	78.3	68.8
Nonoperating revenues (expenses):			
Investment income, net	13.7	17.9	17.8
Other nonoperating expenses (revenues)	(2.6)	2.5	(0.5)
Total nonoperating revenues, net	11.1	20.4	17.3
Change in net position	\$ 132.8	98.7	86.1

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

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

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### ***Fiscal Year 2014 Compared to Fiscal Year 2013***

Operating revenues decreased \$51.6 million or 7.9% from the prior year. The decrease was primarily attributable to interest on mortgage and other loans, which decreased by \$24.6 million or 5.3%. Contributing factors included lower single family mortgage loan rates, which averaged 5.2% compared to 5.4% the previous year, and lower mortgage loan balances resulting from loan securitizations and lower gains from the sale of MBS securities.

Operating expenses decreased \$95.0 million or 16.5% from the prior year due primarily to interest expense on notes and bonds payable which decreased \$43.6 million or 16.3% from the prior year, due to a lower average interest rate on the notes and bonds outstanding. Other operating expenses decreased \$43.4 million or 25.5% over the prior year, primarily due to reductions in the provision for loan losses.

Nonoperating revenues, net, decreased \$9.2 million from the prior year, due to lower investment income and to unrealized losses on investment derivatives.

### ***Fiscal Year 2013 Compared to Fiscal Year 2012***

Operating revenues decreased \$38.7 million or 5.6% from the prior year. The decrease was primarily attributable to a \$30.0 million decrease in federal funding of the Housing and Urban Development HCV program and reduced interest on mortgage and other loans which decreased \$26.6 million or 5.4%. Single family mortgage loan rates averaged 5.4% compared to 5.6% the previous year.

Operating expenses decreased \$48.2 million or 7.7% from the prior year due primarily to pass through grant disbursements in the HCV program expense which decreased \$30.7 million and interest expense on notes and bonds payable which decreased \$25.6 million or 8.8% from the prior year, due to a lower average interest rate on the notes and bonds outstanding.

Nonoperating revenues, net, increased \$3.1 million from the prior year, due to the recovery of previously written off security of \$9.5 million.

### **Other Economic Factors**

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

The Authority's main sources of revenues include mortgage loan interest and investment interest income. Short-term investment rates in the United States have declined sharply from a peak of approximately 5.0% in February 2007 to 0.02% in both June 2014 and June 2013.

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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 5.3% and 5.5% in June 2014 and 2013, respectively. Virginia underemployment rates, which include those no longer seeking employment and those employed only part-time who desire full-time work, were 11.1% and 11.6% in the twelve months ended June 30, 2014 and 2013, respectively.

**Additional Information**

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



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## Independent Auditors' Report

The Board of Commissioners  
Virginia Housing Development Authority:

### Report on the Financial Statements

We have audited the accompanying 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, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

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

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Housing Development Authority as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



### ***Emphasis of Matter***

As discussed in Note 1(v) to the financial statements, in fiscal year 2014, the Authority retrospectively adopted new accounting guidance in Government Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the Management Discussion and Analysis and Schedule of Funding Progress by the Plan Valuation Date on pages 1-10 and 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying supplementary information included in Schedules 2 through 5 on pages 49 through 54 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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information included in Schedules 2 through 5 is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

**KPMG LLP**

September 15, 2014

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

Statements of Net Position

June 30, 2014 and 2013

<b>Assets</b>	<b>2014</b>	<b>2013</b>
		(as restated, note 1v)
Current assets:		
Cash and cash equivalents (note 5)	\$ 501,019,953	1,132,830,809
Investments (note 5)	4,327,835	2,641,341
Derivative instruments (note 9)	—	1,831,652
Interest receivable – investments	705,052	910,913
Mortgage loans held for sale (note 1)	31,167,900	18,228,326
Mortgage and other loans receivable, net (note 4)	185,168,945	179,008,673
Interest receivable – mortgage and other loans	32,136,351	34,325,891
Other real estate owned (note 1)	50,437,024	57,104,450
Other assets	7,948,123	10,541,162
Total current assets	<u>812,911,183</u>	<u>1,437,423,217</u>
Noncurrent assets:		
Investments (note 5)	251,945,031	269,323,930
Mortgage and other loans receivable (note 4)	7,152,763,225	7,187,276,286
Less allowance for loan loss	199,902,332	190,942,569
Less net loan discounts	40,429,055	37,235,116
Mortgage and other loans receivable, net	<u>6,912,431,838</u>	<u>6,959,098,601</u>
Property, furniture, and equipment, less accumulated depreciation and amortization of \$31,770,833 and \$28,447,677 respectively (note 6)	24,577,676	24,327,792
Other assets	13,076,458	9,016,835
Total noncurrent assets	<u>7,202,031,003</u>	<u>7,261,767,158</u>
Total assets	<u>\$ 8,014,942,186</u>	<u>8,699,190,375</u>
<b>Liabilities and Net Position</b>		
Current liabilities:		
Notes and bonds payable (note 7)	\$ 428,209,601	453,826,537
Accrued interest payable on notes and bonds	64,393,000	74,720,188
Housing Choice Voucher contributions payable	188,369	85,334
Escrows (note 8)	43,299,931	46,913,410
Derivative instruments (note 9)	787,672	—
Accounts payable and other liabilities (note 10)	23,622,572	21,642,151
Total current liabilities	<u>560,501,145</u>	<u>597,187,620</u>
Noncurrent liabilities:		
Bonds payable, net (note 7)	4,660,772,600	5,422,155,084
Project reserves (notes 8 and 14)	126,070,113	132,915,870
Other liabilities (notes 10, 12, and 14)	24,007,266	36,118,415
Total noncurrent liabilities	<u>4,810,849,979</u>	<u>5,591,189,369</u>
Total liabilities	<u>5,371,351,124</u>	<u>6,188,376,989</u>
Net position (notes 1 and 11):		
Net investment in capital assets	6,403,910	6,148,792
Restricted by bond indentures	2,509,869,543	2,370,371,839
Unrestricted	127,317,609	134,292,755
Total net position	<u>2,643,591,062</u>	<u>2,510,813,386</u>
Total liabilities and net position	<u>\$ 8,014,942,186</u>	<u>8,699,190,375</u>

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
Operating revenues:		(as restated, note 1v)
Interest on mortgage and other loans receivable	\$ 439,872,258	464,503,657
Pass-through grants income (note 1)	119,708,711	127,749,666
Housing Choice Voucher program income (note 1)	9,846,526	6,613,190
Other real estate owned income	8,863,552	10,812,861
Gains and recoveries on sale of other real estate owned	6,328,885	6,480,302
(Losses) gains on sale of single family mortgage loans	(640,561)	21,746,714
Other	17,557,943	15,268,327
	<b>601,537,314</b>	<b>653,174,717</b>
Operating expenses:		
Interest on notes and bonds payable	222,938,257	266,503,668
Salaries and related employee benefits (notes 12 and 13)	36,778,212	35,384,061
General operating expenses	25,294,205	21,320,657
Note and bond expenses	1,198,171	441,638
Bond issuance expenses	3,585,076	10,711,657
Pass-through grants expenses (note 1)	119,708,711	127,749,666
Housing Choice Voucher program expenses (note 1)	8,693,653	8,678,837
Servicing release premiums and guaranty fees	8,753,967	8,499,632
Other real estate owned expenses	8,879,967	12,067,640
Losses on other real estate owned (note 1)	21,103,427	34,328,820
Provision for loan losses (note 1)	22,953,133	49,146,201
	<b>479,886,779</b>	<b>574,832,477</b>
Operating income	<b>121,650,535</b>	<b>78,342,240</b>
Nonoperating revenues (expenses):		
Investment income (note 10)	13,748,592	17,887,569
Unrealized (loss) gain on derivative instruments (note 9)	(2,619,324)	2,468,039
Other, net	(2,127)	(8,746)
	<b>11,127,141</b>	<b>20,346,862</b>
Change in net position	<b>132,777,676</b>	<b>98,689,102</b>
Total net position, beginning of year, restated	<b>2,510,813,386</b>	<b>2,412,124,284</b>
Total net position, end of year	<b>\$ 2,643,591,062</b>	<b>2,510,813,386</b>

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Year ended June 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		(as restated, note 1v)
Cash payments for mortgage and other loans	\$ (1,099,261,207)	(1,073,242,701)
Principal repayments on mortgage and other loans	856,956,142	1,054,049,284
Sale of mortgage loans	185,292,094	530,364,341
Interest received on mortgage and other loans	439,041,460	428,752,485
Pass-through grants received	119,708,711	127,749,666
Pass-through grants disbursed	(119,708,711)	(127,749,666)
Housing Choice Voucher payments received	9,949,561	6,191,773
Housing Choice Voucher payments disbursed	(8,543,496)	(8,474,350)
Escrow and project reserve payments received	283,410,188	289,197,265
Escrow and project reserve payments disbursed	(293,511,886)	(293,647,996)
Other operating revenues	25,472,094	38,918,161
Cash received for loan origination fees	4,609,976	4,344,177
Cash paid for loan premiums	(8,277,063)	(6,855,929)
Cash payments for salaries and related benefits	(37,050,616)	(34,517,658)
Cash payments for general operating expenses	(43,062,442)	(34,712,777)
Cash payments for servicing release premiums and guaranty fees	(9,969,035)	(8,112,365)
Proceeds from sale of other real estate owned	22,249,522	25,342,256
Disposition of other real estate owned property	38,898,350	28,865,530
Net cash provided by operating activities	<u>366,203,642</u>	<u>946,461,496</u>
Cash flows from noncapital financing activities:		
Proceeds from issuance of notes and bonds	554,013,112	1,910,160,587
Principal payments on notes and bonds	(1,341,650,211)	(2,056,629,795)
Interest payments on notes and bonds	(232,627,766)	(278,778,543)
Cash payments for bond issuance expenses	(3,523,366)	(10,802,067)
Net cash used in noncapital financing activities	<u>(1,023,788,231)</u>	<u>(436,049,818)</u>
Cash flows from capital and related financing activities:		
Purchases of property, furniture, and equipment	(3,909,953)	(2,411,402)
Net cash used in capital and related financing activities	<u>(3,909,953)</u>	<u>(2,411,402)</u>
Cash flows from investing activities:		
Purchases of investments	(6,846,258)	(201,649,542)
Proceeds from sales or maturities of investments	27,595,846	136,909,084
Interest received on investments	8,934,098	7,910,407
Net cash provided by (used in) investing activities	<u>29,683,686</u>	<u>(56,830,051)</u>
Net (decrease) increase in cash and cash equivalents	<u>(631,810,856)</u>	<u>451,170,225</u>
Cash and cash equivalents, at beginning of year	<u>1,132,830,809</u>	<u>681,660,584</u>
Cash and cash equivalents, at end of year	<u>\$ 501,019,953</u>	<u>1,132,830,809</u>

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

Statements of Cash Flows

Year ended June 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
Reconciliation of operating income to net cash provided by operating activities:		(as restated, note 1v)
Operating income	\$ 121,650,535	78,342,240
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of property, furniture, and equipment	3,635,067	3,514,491
Bond issuance costs	3,585,076	10,711,657
Interest on notes and bonds payable	222,938,257	266,503,668
Increase in mortgage loans held for sale	(12,939,574)	(18,228,326)
Decrease in mortgage and other loans receivable	28,352,789	539,213,316
Increase in allowance for loan loss	8,959,763	31,603,858
Increase (decrease) in net loan discounts	3,193,939	(1,629,366)
Decrease in interest receivable – mortgage and other loans	2,189,540	2,390,968
Decrease in other real estate owned	6,667,426	39,298,590
Increase (decrease) in Housing Choice Voucher contributions	103,035	(414,102)
Decrease in other assets	(1,528,295)	(9,843,643)
(Decrease) increase in accounts payable and other liabilities	(10,130,728)	9,660,105
Decrease in escrows and project reserves	(10,473,188)	(4,661,960)
Net cash provided by operating activities	\$ 366,203,642	946,461,496
Supplemental disclosure of noncash activity:		
Increase in other real estate owned as a result of loan foreclosures	\$ 42,371,157	32,525,792

See accompanying notes to basic financial statements.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Notes to Basic Financial Statements

June 30, 2014 and 2013

**(1) Organization and Summary of Significant Accounting Policies**

**(a) Organization**

The Virginia Housing Development Authority (the Authority) was created under the Virginia Housing Development Authority Act, as amended (the Act) enacted by the 1972 Session of the Virginia General Assembly. The Act empowers the Authority, among other authorized activities, to finance the acquisition, construction, rehabilitation and ownership of housing intended for occupancy or ownership, or both, by families of low or moderate income. Mortgage loans are generally financed by the proceeds of notes, bonds, or other debt obligations of the Authority or by Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA) mortgage backed securities (see note 1 (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.

**(c) Use of Estimates**

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

**(d) Investments**

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

**(e) Derivative Instruments**

Forward sales securities commitments are utilized to hedge changes in fair value of mortgage loan inventory and commitments to originate mortgage loans. At June 30, 2014, the Authority had outstanding 36 forward sales transactions with an \$87.7 million notional amount with four counterparties with concentrations and ratings (Standard & Poor's, Moody's Investors Service) as

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Notes to Basic Financial Statements

June 30, 2014 and 2013

shown in note 9. The forward sales will settle by September 18, 2014. 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) *Mortgage Loans Held for Sale***

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

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

Mortgage and other loans receivable are stated at their unpaid principal balance, net of premiums and discounts and an allowance for loan losses. Pricing premiums and discounts 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 premiums and discounts 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 authorized participant in the GNMA and FNMA Mortgage-Backed Securities (MBS) programs. Through the MBS programs, GNMA and FNMA guarantee securities that are backed by pools of mortgage loans originated or purchased by the Authority. These mortgage loan securitizations are treated as sales for accounting and reporting purposes. Upon the sale, the Authority no longer recognizes the mortgage loans receivable in the Statements of Net Position.

**(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 was \$22,953,133 and \$49,146,201 for the years ended June 30, 2014 and 2013, respectively.

**(i) *Mortgage servicing rights***

The Authority pays servicing release premiums when purchasing loans from participating lenders. These premiums are capitalized at cost and amortized over the estimated life of the related mortgage loans, if those mortgage loans are sold to either GNMA or FNMA while the Authority remains the servicer of the loans. Unamortized mortgage servicing right costs were included in other assets and totaled \$3,212,092 and \$2,492,957 as of June 30, 2014 and 2013, respectively.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Notes to Basic Financial Statements

June 30, 2014 and 2013

**(j) Other Real Estate Owned**

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

**(k) 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, and 5 years for vehicles. The capitalization threshold for property, furniture, and equipment is \$1,000.

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

**(l) Bond Issuance Expense**

The Authority has adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which no longer allows the capitalization of costs related to issuing bonds. Therefore, bond issuance costs are expensed in the period incurred. Net position has been restated to reflect the effect of the accounting change as shown in note 1(v) below.

**(m) 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.

**(n) 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.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Notes to Basic Financial Statements

June 30, 2014 and 2013

(o) ***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.

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

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

The Authority serves as an administrator for the U.S. Department of Housing and Urban Development's (HUD) Section 8 Housing Choice Voucher program, consisting of the voucher program as well as other tenant-based assistance programs. The Authority requisitions Section 8 funds, makes disbursements of funds to eligible participants, and recognizes administrative fee income. Program income and program expenses that are recognized as pass-through grants, based upon the amount of allowable Housing Assistance Payments (HAP) disbursements, totaled \$64,899,652 and \$67,878,852 during the years ended June 30, 2014 and 2013, respectively. Additionally, the Authority disbursed other administrative costs totaling \$7,836,149 and \$7,825,083 during the years ended June 30, 2014 and 2013, respectively.

Excess HAP or administrative funds disbursed to the Authority were also recorded as revenue and unrestricted net position in the Statements of Net Position. Cumulative excess HAP funds totaled \$2,475,958 and \$1,344,308, respectively as of June 30, 2014 and 2013. Cumulative excess administrative funds totaled \$3,808 as of June 30, 2014 and a deficit of \$17,414 as of June 30, 2013. HUD monitors the utilization of these excess funds and adjusts funding levels prospectively to assure all funds are being used to serve as many families up to the number of vouchers authorized by the program.

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

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

The Authority received and disbursed pass-through grants totaling \$52,954,015 and \$59,159,680 during the years ended June 30, 2014 and 2013, respectively.

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

The Authority serves as an administrator for 32 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 \$726,365 and \$240,400 during the years ended June 30, 2014 and 2013, respectively.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Notes to Basic Financial Statements

June 30, 2014 and 2013

**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 \$107,666 and \$250,720 during the years ended June 30, 2014 and 2013, respectively.

**Emergency Homeowners Loan Program**

The Authority is also a grantee of NeighborWorks America, for the Emergency Homeowners Loan Program which provides mortgage payment relief to eligible homeowners experiencing a decrease in income of at least 15%, directly resulting from involuntary unemployment or underemployment due to adverse economic conditions and/or a medical emergency. The Authority received and disbursed assistance of \$17,385 and \$19,333 during the years ended June 30, 2014 and 2013, respectively.

**(q) Commonwealth Priority Housing Fund & Housing Trust 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 \$7,197,692 and \$7,390,842 as of June 30, 2014 and 2013, respectively.

The Housing Trust Fund, established by the 2013 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 Housing Trust Fund are recorded in assets and liabilities in the amounts of \$1,010,765 as of June 30, 2014.

**(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) Rebutable Arbitrage**

Rebutable 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.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Notes to Basic Financial Statements

June 30, 2014 and 2013

**(t) Statements of Net Position**

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

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

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

**(v) New Accounting Standards and Restatement of Net Position**

The Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2013; and has applied it retroactively to the financial statements for all periods presented. GASB 65 requires that (1) debt issuance costs are to be recognized as an expense in the period incurred and can no longer be deferred and amortized over the life of the debt and (2) loan origination fees, net of costs, are to be recognized in the period incurred and can no longer be deferred and amortized over the life of the loans.

The retroactive application of GASB 65 has resulted in the cumulative adjustment to the opening balance of net position as of July 1, 2012. The cumulative effect of implementation of GASB 65 related to bond financing costs and the deferment of origination fees and costs and their effect on select financial statement line items before and after the application at June 30, 2012 is as follows:

Statement of Net Position - June 30, 2013	As Previously Reported	Restatement/ Adjustment	As Restated
<b>Noncurrent assets:</b>			
Mortgage and other loans receivable			
net deferred loan costs	\$ 17,976,519	19,258,597	37,235,116
Unamortized bond issuance expenses	2,931,814	(2,931,814)	-
Other assets	9,911,961	(895,126)	9,016,835
<b>Noncurrent liabilities:</b>			
Bonds payable, net	5,439,908,808	17,753,724	5,422,155,084
Net position	\$ 2,516,145,199	(5,331,813)	2,510,813,386

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Notes to Basic Financial Statements

June 30, 2014 and 2013

The following table illustrates the cumulative effect of all components due to change in accounting principle as of June 30, 2012 and June 30, 2013:

July 1, 2012, net position, as originally reported	\$ 2,405,148,085
Cumulative effect of changes in accounting principle at July 1, 2012	<u>6,976,199</u>
July 1, 2012 net position, as restated	2,412,124,284
Change in net position for the year ended	
June 30, 2013, as originally reported	110,997,114
Cumulative effect of changes in accounting principle at June 30, 2013	<u>(12,308,012)</u>
Change in net position for the year ended June 30, 2013, as restated	<u>98,689,102</u>
June 30, 2013, net position, as restated	\$ <u><u>2,510,813,386</u></u>

The effect of implementation of GASB 65 on select statement line items of the statement of revenues, expenses, and changes in net position before and after the application for the year ended June 30, 2013:

Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2013	As Previously Reported	Restatement/ Adjustment	As Restated
Operating revenues:			
Interest on mortgages and other loans	\$ 456,158,885	8,344,772	464,503,657
Operating expenses:			
Interest on notes and bonds payable	261,052,874	5,450,794	266,503,668
Amortization of bond issuance expenses	2,000,106	(2,000,106)	-
Bond issuance expenses	-	10,711,657	10,711,657
External mortgage servicing expenses	<u>2,009,193</u>	<u>6,490,439</u>	<u>8,499,632</u>
Change in net position	\$ <u><u>110,997,114</u></u>	<u><u>(12,308,012)</u></u>	<u><u>98,689,102</u></u>

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The reconciliation of operating income to net cash provided by operating activities for the year ended June 30, 2013 has been restated to reflect the revenue and expense restatements presented above. There were no changes to the net cash provided by operating activities or to the net increase in cash and cash equivalents in the Statement of Cash Flows for the year ended June 30, 2013.

(w) ***Reclassifications***

Certain reclassifications have been made in the June 30, 2013 financial statements to conform to the June 30, 2014 presentation.

(2) **Basis of Presentation**

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

(a) ***General Operating Accounts***

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

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

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

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

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

Prior to January 2013, the proceeds of the VHDA General Purpose Bonds were used to finance construction and permanent loans on multi-family housing projects, loans on single-family dwellings.

(d) ***Commonwealth Mortgage Bond Group***

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

(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

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and local housing finance agencies in acquiring cost-effective mortgage loan capital. The proceeds of Homeownership Mortgage Bonds are used to purchase or make long-term loans to owner occupants of single family dwellings.

**(3) Restricted Assets**

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

Restricted assets as of June 30, 2014 and 2013 were as follows:

	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
		(as restated)
Current assets:		
Cash and cash equivalents	\$ 495,751,774	1,121,217,031
Interest receivable – investments	229,226	393,763
Mortgage loans held for sale	31,167,900	18,228,326
Mortgage and other loans receivable	181,741,017	175,913,686
Interest receivable – mortgage and other loans	31,824,462	33,527,036
Other real estate owned	50,437,024	56,932,315
Other assets	1,902,278	2,400,904
Total current assets	<u>793,053,681</u>	<u>1,408,613,061</u>
Noncurrent assets:		
Investments	107,351,474	108,900,144
Mortgage and other loans receivable	7,056,887,583	7,100,089,586
Less allowance for loan loss	180,876,589	177,963,306
Less net loan discounts	40,040,819	37,181,230
Mortgage and other loans receivable, net	6,835,970,175	6,884,945,050
Property, furniture, and equipment, less accumulated depreciation and amortization of \$16,628,039 and \$15,931,410 respectively	13,192,354	13,888,983
Total noncurrent assets	<u>6,956,514,003</u>	<u>7,007,734,177</u>
Total restricted assets	<u>\$ 7,749,567,684</u>	<u>8,416,347,238</u>

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

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

<u>Loan program/bond group</u>	<u>Interest rates</u>	<u>Initial loan terms</u>
General Operating Accounts	0% to 8.30%	Thirty to forty years
Rental Housing Bond Group	0% to 13.11%	Thirty to forty years
Commonwealth Mortgage Bond Group	1.13% to 10.84%	Thirty years
Homeownership Mortgage Bond Group	2.00% to 5.88%	Thirty years

Commitments to fund new loans were as follows at June 30, 2014:

	<u>Committed</u>
General Operating Loan Programs	\$ 19,691,657
Rental Housing Bond Group	339,751,818
Commonwealth Mortgage Bond Group	126,962,744
Total	<u>\$ 486,406,219</u>

**(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, 2014 and 2013, the carrying amount of the Authority's deposits was \$63,264,200 and \$207,234,546, respectively. The associated bank balance of the Authority's deposits was \$60,800,553 and \$200,969,227 at June 30, 2014 and 2013, respectively. The difference between the carrying amount and the bank balance is due to outstanding checks, deposits in transit, and other reconciling items.

Cash equivalents include investments with original maturities of three months or less from date of purchase. Investments consist of U.S. government and agency securities, municipal tax-exempt securities, corporate notes, reverse repurchase agreements and various other investments for which there are no securities as evidence of the investment. Investments in the bond funds consist of those permitted by the various resolutions adopted by the Authority. At June 30, 2014 and 2013, total cash equivalents were \$437,755,753 and \$925,596,263, respectively.

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Investments as of June 30, 2014 and 2013 are classified in the statements of net position as follows:

	<b>June 30</b>	
	<b>2014</b>	<b>2013</b>
Current investments	\$ 4,327,835	2,641,341
Noncurrent investments	251,945,031	269,323,930
Total investments	\$ 256,272,866	271,965,271

The Investment of Public Funds Act of the Code of Virginia as well as the various bond resolutions establishes permitted investments for the Authority. Within the permitted statutory framework, the Authority's investment policy is to fully invest all moneys and maximize the return thereon, by investing and managing investments in a prudent manner that will enable the Authority to fulfill its financial commitments. Approved investments include but are not limited to: direct obligations of the United States of America, direct obligations of any state or political subdivision of the United States of America, obligations unconditionally guaranteed by the United States of America or other political subdivision, bonds, debentures, certificates of deposit, repurchase agreements, swap contracts, futures contracts, forward contracts. No more than 3.5% of the Authority's total assets may be invested in any one entity and no more than 10% of the Authority's total assets can be invested in repurchase agreement transactions maturing in less than one month. Such agreements must be collateralized with U.S. Treasury and or Agency securities with a market value at least equal to 102% of the principal amount of the agreement.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy is to hold all investments to maturity and to limit the length of an investment at purchase, to coincide with expected timing of its use.

**(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.

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As of June 30, 2014, the Authority had the following investments (including cash equivalents) and maturities:

<u>Investment type</u>	<u>Less than 1 year</u>	<u>1 – 5 years</u>	<u>6 – 10 years</u>	<u>Over 10 years</u>	<u>Fair value</u>
Reverse repurchase agreements	\$ 240,000,000	—	—	—	240,000,000
Municipal securities	9,922,835	3,872,235	—	—	13,795,070
Asset-backed securities	—	—	—	27,129,546	27,129,546
Agency -mortgage backed securities	—	—	570,488	170,550,511	171,120,999
Money market securities	190,544,100	—	—	—	190,544,100
Corporate notes	—	49,822,250	—	—	49,822,250
Other interest-bearing securities	1,616,654	—	—	—	1,616,654
Total investments	<u>\$ 442,083,589</u>	<u>53,694,485</u>	<u>570,488</u>	<u>197,680,057</u>	<u>694,028,619</u>

As of June 30, 2013, the Authority had the following investments (including cash equivalents) and maturities:

<u>Investment type</u>	<u>Less than 1 year</u>	<u>1 – 5 years</u>	<u>6 – 10 years</u>	<u>Over 10 years</u>	<u>Fair value</u>
Repurchase agreements	\$ 355,000,000	—	—	—	355,000,000
Municipal securities	10,774,722	6,348,700	—	—	17,123,422
Asset-backed securities	—	—	—	28,163,312	28,163,312
Agency -mortgage backed securities	—	—	736,038	184,368,630	185,104,668
Commercial paper	562,434,650	—	—	—	562,434,650
Corporate notes	—	49,707,250	—	—	49,707,250
Other interest-bearing securities	28,232	—	—	—	28,232
Total investments	<u>\$ 928,237,604</u>	<u>56,055,950</u>	<u>736,038</u>	<u>212,531,942</u>	<u>1,197,561,534</u>

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**(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, 2014:

<u>Investment type</u>	<u>Amount</u>	<u>S &amp; P/ Moody's rating</u>	<u>Percentage of total investments</u>
Repurchase Agreements	\$ 240,000,000	BBB-	34.58%
Money Market Securities	190,044,100	P-1	27.38
Agency Mortgage Backed Securities	171,120,999	Aaa	24.66
Corporate Notes	24,995,250	Aa2	3.60
Corporate Notes	24,827,000	A1	3.58
Asset Backed Securities	16,598,194	B2	2.39
Municipal Securities	5,595,000	NR	0.81
Municipal Securities	3,224,987	Aa2	0.47
Asset Backed Securities	3,128,686	Caa1	0.45
Municipal Securities	2,627,903	Aaa	0.38
Asset Backed Securities	2,516,882	Ca	0.36
Asset Backed Securities	2,509,454	Caa3	0.36
Municipal Securities	1,935,867	Aa1	0.28
Other Interest Bearing Instruments	1,616,654	Aaa	0.23
Asset Backed Securities	1,223,117	Caa2	0.18
Asset Backed Securities	766,074	A1	0.11
Money Market Securities	500,000	Aaa	0.07
Municipal Securities	411,313	AA+	0.06
Asset Backed Securities	387,139	Baa2	0.05
Total investments	\$ <u>694,028,619</u>		<u>100.00%</u>

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

Activity in the property, furniture, and equipment accounts for the year ended June 30, 2014 was as follows:

	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance June 30, 2014</u>
Land	\$ 2,935,815	—	—	—	2,935,815
Building	31,118,900	—	—	—	31,118,900
Furniture and equipment	17,354,945	1,218,231	(336,913)	1,374,346	19,610,609
Motor vehicles	504,786	—	—	—	504,786
Construction in progress	861,023	2,691,722	—	(1,374,346)	2,178,399
	<u>\$ 52,775,469</u>	<u>3,909,953</u>	<u>(336,913)</u>	<u>—</u>	<u>56,348,509</u>

Activity in the related accumulated depreciation and amortization accounts during the year ended June 30, 2014 was as follows:

	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2014</u>
Building	\$ (15,976,229)	(777,933)	—	(16,754,162)
Furniture and equipment	(12,060,050)	(2,818,243)	311,911	(14,566,382)
Motor vehicles	(411,398)	(38,891)	—	(450,289)
	<u>\$ (28,447,677)</u>	<u>(3,635,067)</u>	<u>311,911</u>	<u>(31,770,833)</u>

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

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

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

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

**(7) Notes and Bonds Payable**

Notes and bonds payable at June 30, 2013 and June 30, 2014 and changes for the year ended June 30, 2014 were as follows:

<b>Description</b>	<b>Balance at June 30, 2013</b>	<b>Issued</b>	<b>Retired</b>	<b>Balance at June 30, 2014</b>
(Amounts shown in thousands)				
General operating accounts:				
Revolving line of credit:				
Bank of America				
floating daily rate (rate of 1.203250% at June 30, 2014) termination date of December 1, 2015	\$ 27,500	43,000	26,500	44,000
Federal Home Loan Bank				
floating daily rate (rate of 0.2300% at June 30, 2014) no fixed maturity	<u>123,547</u>	<u>236,547</u>	<u>247,094</u>	<u>113,000</u>
Total general operating accounts	<u>\$ 151,047</u>	<u>279,547</u>	<u>273,594</u>	<u>157,000</u>

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Description	Balance at June 30, 2013	Issued	Retired	Balance at June 30, 2014
(Amounts shown in thousands)				
Rental housing bond group:				
2003 Series F/G, dated December 23, 2003, 4.91% effective interest rate, final due date April 1, 2030	\$ 14,960	—	14,960	—
2004 Series F/G, dated September 2, 2004, 5.75% effective interest rate, final due date September 1, 2030	47,605	—	47,605	—
2004 Series H/I/J, dated December 16, 2004, 5.28% effective interest rate, final due date December 1, 2029	31,960	—	31,960	—
2005 Series A, dated April 26, 2005, 5.55% effective interest rate, final due date May 1, 2030	32,440	—	32,440	—
2005 Series B/C, dated April 26, 2005, 4.57% effective interest rate, final due date May 1, 2031	49,010	—	49,010	—
2005 Series D, dated June 14, 2005, 5.19% effective interest rate, final due date September 1, 2033	36,695	—	1,035	35,660
2005 Series E/F, dated June 14, 2005, 4.60% effective interest rate, final due date September 1, 2039	41,035	—	845	40,190
2005 Series G, dated October 20, 2005, 5.46% effective interest rate, final due date December 1, 2030	78,080	—	2,825	75,255
2005 Series H/I, dated October 20, 2005, 4.48% effective interest rate, final due date December 1, 2030	32,910	—	1,395	31,515
2005 Series J/K, dated December 14, 2005, 5.30% effective interest rate, final due date February 1, 2035	35,150	—	1,060	34,090

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Description	Balance at June 30, 2013	Issued	Retired	Balance at June 30, 2014
	(Amounts shown in thousands)			
2006 Series A, dated May 23, 2006, 4.89% effective interest rate, final due date April 1, 2033	\$ 7,635	—	240	7,395
2006 Series B, dated October 31, 2006, 4.65% effective interest rate, final due date November 1, 2038	21,730	—	455	21,275
2006 Series C, dated December 12, 2006, 5.80% effective interest rate, final due date January 1, 2039	42,345	—	735	41,610
2006 Series D/E/F, dated December 12, 2006, 4.53% effective interest rate, final due date January 1, 2039	75,930	—	1,660	74,270
2007 Series A, dated June 12, 2007, 6.03% effective interest rate, final due date July 1, 2039	114,365	—	1,665	112,700
2007 Series B/C, dated September 20, 2007, 6.16% effective interest rate, final due date November 1, 2038	22,120	—	435	21,685
2009 Series A, dated February 26, 2009, 6.80% effective interest rate, final due date March 1, 2039	69,635	—	1,190	68,445
2009 Series B, dated March 26, 2009, 5.54% effective interest rate, final due date June 1, 2043	27,835	—	430	27,405
2009 Series C/D, dated March 30, 2009, 5.81% effective interest rate, final due date February 1, 2021	278,010	—	29,970	248,040
2009 Series E, dated September 24, 2009, 4.74% effective interest rate, final due date October 1, 2044	48,745	—	785	47,960
2009 Series F, dated November 25, 2009, 4.87% effective interest rate, final due date December 1, 2044	47,410	—	755	46,655

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<b>Description</b>	<b>Balance at June 30, 2013</b>	<b>Issued</b>	<b>Retired</b>	<b>Balance at June 30, 2014</b>
	(Amounts shown in thousands)			
2010 Series A, dated March 23, 2010, 4.79% effective interest rate, final due date April 1, 2045	\$ 20,130	—	230	19,900
2010 Series B, dated April 27, 2010, 4.74% effective interest rate, final due date June 1, 2045	22,140	—	370	21,770
2010 Series C, dated July 28, 2010, 4.61% effective interest rate, final due date August 1, 2045	11,620	—	190	11,430
2010 Series D, dated August 26, 2010, 4.31% effective interest rate, final due date September 1, 2040	32,280	—	725	31,555
2010 Series E, dated October 7, 2010, 4.19% effective interest rate, final due date October 1, 2045	37,700	—	715	36,985
2010 Series F, dated December 2, 2010, 4.85% effective interest rate, final due date January 1, 2041	19,525	—	405	19,120
2011 Series A, dated May 24, 2011, 4.92% effective interest rate, final due date May 1, 2041	11,470	—	235	11,235
2011 Series B, dated September 27, 2011, 4.27% effective interest rate, final due date October 1, 2041	17,480	—	2,680	14,800
2011 Series C, dated December 8, 2011, 4.24% effective interest rate, final due date December 1, 2038	19,500	—	300	19,200
2011 Series D, dated December 8, 2011, 4.93% effective interest rate, final due date January 1, 2039	154,300	—	3,650	150,650
2011 Series E, dated December 22, 2011, 4.40% effective interest rate, final due date March 1, 2028	148,905	—	7,560	141,345
2012 Series A, dated February 28, 2012, 3.60% effective interest rate, final due date March 1, 2042	35,000	—	400	34,600
2012 Series B, dated August 21, 2012, 3.64% effective interest rate, final due date August 1, 2042	114,075	—	—	114,075

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<b>Description</b>	<b>Balance at June 30, 2013</b>	<b>Issued</b>	<b>Retired</b>	<b>Balance at June 30, 2014</b>
	(Amounts shown in thousands)			
2012 Series D dated October 30, 2012, 4.02% effective interest rate, final due date October 1, 2042	\$ 221,925	—	—	221,925
2012 Series E dated November 2, 2012, 3.16% effective interest rate, final due date November 1, 2042	10,700	—	—	10,700
2013 Series A/B dated April 11, 2013, 3.95% effective interest rate, final due date April 1, 2043	35,105	—	575	34,530
2013 Series C dated May 2, 2013, 3.82% effective interest rate, final due date February 1, 2043	163,025	—	—	163,025
2013 Series D dated May 30, 2013, 4.06% effective interest rate, final due date June 1, 2043	111,330	—	—	111,330
2013 Series E dated July 11, 2013, 4.15% effective interest rate, final due date July 1, 2043	—	20,750	—	20,750
2013 Series F dated October 10, 2013, 4.98% effective interest rate, final due date October 1, 2043	—	58,435	—	58,435
2013 Series G dated December 3, 2013, 4.27% effective interest rate, final due date December 1, 2043	—	11,650	—	11,650
	<u>2,341,815</u>	<u>90,835</u>	<u>239,490</u>	<u>2,193,160</u>
Unamortized premium	<u>2,450</u>			<u>2,549</u>
Total rental housing bonds	<u>\$ 2,344,265</u>			<u>2,195,709</u>
<b>Commonwealth mortgage bonds group:</b>				
2002 Series B, dated March 20, 2002, 6.20% effective interest rate, final due date August 25, 2030	\$ 15,701	—	2,162	13,539
2002 Series E/F/G, dated December 17, 2002, 5.17% effective interest rate, final due date December 25, 2032	14,172	—	2,298	11,874

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<u>Description</u>	<u>Balance at June 30, 2013</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2014</u>
	(Amounts shown in thousands)			
2003 Series C, dated October 1, 2003, 5.11% effective interest rate, final due date August 25, 2033	\$ 1,088	—	91	997
2004 Series B, dated June 10, 2004, 5.66% effective interest rate, final due date June 25, 2034	3,404	—	293	3,111
2005 Series A, dated April 21, 2005, 4.51% effective interest rate, final due date October 1, 2031	239,710	—	169,600	70,110
2005 Series C/D/E, dated November 3, 2005, 4.44% effective interest rate, final due date April 1, 2028	282,870	—	110,385	172,485
2006 Series A/B, dated April 27, 2006, 5.88% effective interest rate, final due date March 25, 2036	5,616	—	773	4,843
2006 Series C, dated June 8, 2006, 6.17% effective interest rate, final due date June 25, 2034	24,681	—	4,881	19,800
2006 Series D/E/F, dated July 13, 2006 4.60% effective interest rate, final due date October 1, 2032	377,110	—	119,400	257,710
2007 Series A/B/C/D, dated May 18, 2007 4.86% effective interest rate, final due date January 1, 2036	703,165	—	133,230	569,935
2008 Series A, dated March 25, 2008, 6.07% effective interest rate, final due March 25, 2038	47,997	—	6,578	41,419
2008 Series B, dated April 10, 2008, 6.11% effective interest rate, final due date March 25, 2038	71,371	—	13,133	58,238
2008 Series C, dated November 18, 2008, 6.41% effective interest rate, final due date June 25, 2038	28,309	—	4,109	24,200

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June 30, 2014 and 2013

Description	Balance at June 30, 2013	Issued	Retired	Balance at June 30, 2014
(Amounts shown in thousands)				
2008 Series D/E, dated December 16, 2008, 6.10% effective interest rate, final due date January 1, 2036	\$ 137,900	—	137,900	—
2009 Series A, dated November 25, 2009, 4.33% effective interest rate, final due date April 1, 2027	51,750	—	13,000	38,750
2012 Series A, dated December 20, 2012, 2.10% effective interest rate, final due date July 1, 2026	74,490	—	—	74,490
2012 Series B/C, dated December 20, 2012, 3.62% effective interest rate, final due date July 1, 2039.	715,510	—	3,800	711,710
2013 Series B, dated May 21, 2013 2.75% effective interest rate, final due date April 25, 2042	99,605	—	10,940	88,665
2013 Series C, dated October 24, 2013 4.25% effective interest rate, final due date October 25, 2043	—	101,914	1,865	100,049
2013 Series D, dated December 19, 2013 4.30% effective interest rate, final due date December 25, 2043	—	81,717	1,700	80,017
	<u>2,894,449</u>	<u>183,631</u>	<u>736,138</u>	<u>2,341,942</u>
Unamortized premium	(3,290)			(2,752)
Total commonwealth mortgage bonds group	\$ <u>2,891,159</u>			<u>2,339,190</u>
Homeownership mortgage bonds group:				
2009 Series B-1, dated February 10, 2010, 4.42% effective interest rate, final due date November 1, 2041	\$ 6,190	—	6,190	—
2010 Series A, dated February 10, 2010, 3.64% effective interest rate, final due date September 1, 2021	84,430	—	10,200	74,230

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<b>Description</b>	<b>Balance at June 30, 2013</b>	<b>Issued</b>	<b>Retired</b>	<b>Balance at June 30, 2014</b>
	(Amounts shown in thousands)			
2009 Series B-2, dated October 29, 2010, 3.16% effective interest rate, final due date November 1, 2041	\$ 21,300	—	21,300	—
2010 Series B, dated October 29, 2010, 3.10% effective interest rate, final due date March 1, 2022	55,300	—	6,300	49,000
2009 Series B-3, dated June 14, 2011, 3.71% effective interest rate, final due date November 1, 2041	16,500	—	16,500	—
2011 Series A, dated June 14, 2011, 3.30% effective interest rate, final due date March 1, 2024	62,700	—	5,100	57,600
2009 Series B-4, dated September 27, 2011, 2.68% effective interest rate, final due date November 1, 2041.	15,070	—	15,070	—
2011 Series B, dated September 27, 2011, 3.16% effective interest rate, final due date September 1, 2024	69,650	—	5,300	64,350
2013 Series A, dated March 27, 2013, 3.25% effective interest rate, final due date August 25, 2042	<u>158,371</u>	<u>—</u>	<u>6,468</u>	<u>151,903</u>
Total homeownership mortgage bonds group	<u>489,511</u>			<u>397,083</u>
Total	<u>\$ 5,875,982</u>			<u>5,088,982</u>

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Notes and bonds payable at June 30, 2012 and June 30, 2013 and changes for the year ended June 30, 2013 were summarized as follows (as restated) (amounts in thousands):

	<u>June 30, 2012</u>	<u>Issued</u>	<u>Retired</u>	<u>Change in unamortized premium (discount) and compound interest payable</u>	<u>June 30, 2013</u>
General operating accounts	\$ 109,500	202,647	(161,100)	—	151,047
Rental housing bond group	2,215,851	656,160	(528,615)	869	2,344,265
Homeownership mortgage group	781,240	160,000	(451,729)	—	489,511
VHDA General purpose group	261,825	—	(261,825)	—	—
Commonwealth mortgage bond group	<u>2,652,511</u>	<u>1,451,354</u>	<u>(1,213,362)</u>	<u>656</u>	<u>2,891,159</u>
Total	<u>\$ 6,020,927</u>	<u>2,470,161</u>	<u>(2,616,631)</u>	<u>1,525</u>	<u>5,875,982</u>

Current and noncurrent amounts of notes and bonds payable at June 30, 2014 and 2013 were as follows:

	<u>June 30</u>	
	<u>2014</u>	<u>2013</u>
	<u>(as restated)</u>	
	<u>(Amount in thousands)</u>	
Notes and bonds payable – current	\$ 428,209	453,827
Bonds payable – noncurrent	<u>4,660,773</u>	<u>5,422,155</u>
Total	<u>\$ 5,088,982</u>	<u>5,875,982</u>

From time to time, the Authority has participated in refundings, in which new debt is issued and the proceeds are used to redeem, generally within ninety days, previously issued debt. Related discounts or premiums previously deferred are recognized in income or expense, respectively. There were no refundings during the years ended June 30, 2014 and 2013. The Authority had redemptions of \$784,840,000 and \$1,585,430,000 during the years ended June 30, 2014 and 2013, respectively.

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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, 2014 and thereafter are as follows:

<u>Year ending June 30</u>	<u>Original principal</u>	<u>Current interest</u>	<u>Total debt service</u>
2015	\$ 412,174,601	343,051,370	755,225,971
2016	223,075,000	197,617,919	420,692,919
2017	233,340,000	189,665,553	423,005,553
2018	217,105,000	180,953,023	398,058,023
2019	228,660,000	172,692,280	401,352,280
2020 – 2024	976,945,000	729,174,936	1,706,119,936
2025 – 2029	682,770,000	554,642,513	1,237,412,513
2030 – 2034	670,067,564	406,952,612	1,077,020,176
2035 – 2039	711,181,705	246,653,013	957,834,718
2040 – 2044	715,041,812	92,062,727	807,104,539
2045 – 2049	18,825,000	1,156,734	19,981,734
Total	<u>\$ 5,089,185,682</u>	<u>3,114,622,680</u>	<u>8,203,808,362</u>

The Authority has a \$100 million revolving credit agreement with Bank of America to provide funds for general corporate purposes. The agreement was renewed on December 1, 2013 and will terminate on December 1, 2015 unless extended by Bank of America and the Authority. All amounts outstanding are due and payable on the termination date. Under the original terms, prior to December 1, 2013, 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. Under the new terms starting December 1, 2013, 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 105 to 135 basis points per annum based upon the Authority's long-term credit ratings. As of June 30, 2014 the borrowing rate was 1.20%. The Authority is in compliance with all debt covenant requirements. At June 30, 2014 and 2013, there were \$44.0 million and \$27.5 million outstanding, respectively.

The Authority maintains a credit agreement with the Federal Home Loan Bank (FHLB) of Atlanta, whereby FHLB of Atlanta may advance funds that are secured by government agency securities held in FHLB of Atlanta. Interest on any advance can be charged either under a floating daily rate or a fixed rate with a stated maturity not to exceed either 1 year for daily rate or twenty years for fixed rate loans. As of June 30, 2014 there was one 90 day fixed rate borrowing at 0.23%. The Authority is in compliance with all debt covenant requirements. At June 30, 2014 and 2013, there were \$113.0 million and \$123.5 million outstanding, respectively.

**(8) Escrows and Project Reserves**

Escrows and project reserves represent amounts held by the Authority as escrows for insurance, real estate taxes and completion assurance, and as reserves for replacement and operations (note 14). The Authority invests these funds and, for project reserves, allows earnings to accrue to the benefit of the mortgagor.

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At June 30, 2014 and 2013, these escrows and project reserves were presented in the Authority's Statements of Net Position as follows:

	June 30	
	2014	2013
Escrows – current	\$ 43,299,931	46,913,410
Project reserves – noncurrent	126,070,113	132,915,870
Total	\$ 169,370,044	179,829,280

**(9) Derivative Instruments**

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

The outstanding forward contracts, summarized by counterparty rating as of June 30, 2014, were as follows:

Counterparty rating	Count	Par	Concentration	Notional amount	Market value	Fair value asset (liability)
A-1/A	12	\$ 36,600,000	42.6%	\$ 37,169,730	37,611,406	(441,676)
A-1/A+	16	31,100,000	36.2	31,739,117	31,960,266	(221,149)
Baa3/BBB	5	10,100,000	11.8	10,424,254	10,532,531	(108,277)
A-1+/AA-	3	8,100,000	9.4	8,361,414	8,377,984	(16,570)
	36	\$ 85,900,000	100.0%	\$ 87,694,515	88,482,187	(787,672)

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

Counterparty rating	Count	Par	Concentration	Notional amount	Market value	Fair value asset (liability)
A-1/A	2	\$ 2,100,000	4.9%	\$ 2,118,965	2,056,625	62,340
A-1/A+	3	8,500,000	19.8%	8,847,234	8,367,734	479,500
Bbb3/BBB	9	12,200,000	28.4	12,616,004	12,203,766	412,238
A-1+/AA-	9	20,100,000	46.9	20,882,793	20,005,219	877,574
	23	\$ 42,900,000	100.0%	\$ 44,464,996	42,633,344	1,831,652

**(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

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allowable amount must be rebated to the U.S. Department of the Treasury. These excess earnings are recorded in accounts payable and other liabilities. No rebates were paid in the year ended June 30, 2014 and 2013, respectively. Remaining liability balances were \$51,557 and \$49,316 at June 30, 2014 and 2013, respectively.

**(11) Net Position**

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

Unrestricted net position represents those portions of the total net position set aside for current utilization and tentative plans for future utilization of such net position. As of June 30, 2014 and 2013, 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; support for REACH Virginia initiatives and tenant-based housing assistance payments, and for working capital and future operating and capital expenditures. Additional unrestricted net position commitments include maintenance of the Authority's obligation with regard to the general obligation pledge on its bonds; contributions to future bond issues other than those scheduled during the next year; coverage on the uninsured, unsubsidized multi-family conventional loan program and any unanticipated losses in connection with the uninsured portions of the balance of the single-family and multi-family loans; coverage on the liability exposure of commissioners and officers; the cost of holding foreclosed property prior to resale; costs incurred with the redemption of bonds; single-family loan prepayment shortfalls; and other risks and contingencies.

**(12) Employee Benefits Plans**

The Authority incurs employment retirement savings expense under two defined contribution plans equal to between 8%-11% of full-time employees' compensation. Total retirement savings expense for the year ended June 30, 2014 and 2013 was \$2,858,725 and \$2,826,678, 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, 2014 and 2013, included in other liabilities is an employee compensated absences accrual of \$4,335,802 and \$4,267,174, respectively (note 14).

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

At the sole discretion of the Authority, eligible employees may participate in the Virginia Housing Development Authority Retiree Health Care Plan (RHC), a single-employer defined benefit plan. The Authority administers the RHC through the Virginia Housing Development Authority Retiree Health Care Plan Trust (RHC Trust), an irrevocable trust to be used solely for providing benefits to eligible participants

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in the RHC. Assets of the RHC Trust are irrevocable and legally protected from creditors and dedicated to providing post-employment reimbursement of eligible medical and dental expenses to current and eligible future retirees and their spouses in accordance with the terms of the RHC. Employer contributions are recorded in the year in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations.

Effective January 1, 2006, eligible retirees must be at least 55 years of age with 15 years of service, (or at least 55 years of age with 10 years of service if employed by the Authority prior to such date). RHC participants receive an annual benefit based on age and years of service at retirement and based on a matrix, updated annually for cost-of-living plus 2% not to exceed 150% of the annual premium for preferred provider organization medical plan offered that year if the participant under age 65 or not to exceed 75% or the annual premium if the participant is age 65 or over. The annual benefit may be used to pay for health insurance purchased through the Authority's group plan or elsewhere, and for other eligible medical and dental expenses. For the year ended June 30, 2014, there were approximately 71 participating retirees and spouses and 316 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, 2014 of \$310,203 is approximately 1.18% of covered payroll.

The actuarially determined values for disclosure in accordance with GASB 45 are as follows:

<u>Fiscal year-end</u>	<u>Beginning net OPEB obligation (asset)</u>	<u>ARC</u>	<u>Interest on OPEB liability</u>	<u>ARC adjustment</u>	<u>Amortization factor</u>	<u>Annual OPEB cost</u>
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	980,326
June 30, 2012	(8,913)	504,032	(557)	437	21.04	503,912
June 30, 2013	(559,731)	447,428	(34,983)	(26,599)	21.04	385,846
June 30, 2014	(1,237,131)	310,203	(77,321)	60,600	21.04	293,482

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The OPEB cost to the Authority and its contributions and changes in the RHC plan for fiscal years 2009 through 2014 are as follows:

<u>Fiscal year-end</u>	<u>Beginning net OPEB obligation (asset)</u>	<u>Annual OPEB cost</u>	<u>Contribution</u>	<u>Change in net OPEB obligation (asset)</u>	<u>Net OPEB obligation (asset) balance</u>
June 30, 2009	\$ (29,738)	895,644	(971,913)	(76,269)	(106,007)
June 30, 2010	(106,007)	962,413	(895,644)	66,769	(39,238)
June 30, 2011	(39,238)	980,325	(950,000)	30,325	(8,913)
June 30, 2012	(8,913)	503,912	(1,054,730)	(550,818)	(559,731)
June 30, 2013	(559,731)	439,044	(1,116,444)	(677,400)	(1,237,131)
June 30, 2014	(1,237,131)	293,482	(1,184,964)	(891,482)	(2,128,613)

For the year ended June 30, 2014, the Authority's Annual OPEB cost was \$293,482; the percentage of Annual OPEB Cost Contribution was 404%; and the ending Net OPEB asset was \$2,128,613. For the year ended June 30, 2013, the Authority's Annual OPEB cost was \$439,044; the percentage of Annual OPEB Cost Contribution was 254%; and the ending Net OPEB asset was \$1,237,131.

As of December 31, 2013, the unfunded actuarial accrued liability (UAAL) for benefits was (\$3,682,045). The covered payroll (annual payroll of active employees covered by the RHC) was \$26,235,656 and the ratio of the UAAL to the covered payroll was (14.0%). As of December 31, 2013, the actuarial value of net assets held by the RHC Trust was \$20,374,633, the actuarial accrued liability was \$16,692,588, and the funded ratio was 122.1%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about mortality and healthcare cost trends. Actuarially determined amounts are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and are subject to continual revisions as actual results are compared with past expectations and revised estimates are made about the future. In the actuarial valuation, the entry age-cost method was used. The actuarial assumptions include a 6.25% long term investment rate of return per annum (compounded annually, that includes a 4.5% inflation rate, 2.5% real rate of return, 4.5% salary scale and a 3.5% salary growth). The projected healthcare cost trend is 7.5% initially for 2014, reduced by decrements to an ultimate rate of 5.0% after 5 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The unfunded actuarial accrued liability was amortized over 30 years in calculating the 2013-14 fiscal year annual required contribution.

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

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

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the year ended June 30, 2014 was as follows:

	<b>Balance at June 30, 2013</b>	<b>Additions</b>	<b>Decreases</b>	<b>Balance at June 30, 2014</b>
Project reserves	\$ 132,915,870	41,804,496	48,650,253	126,070,113
Commonwealth Priority Housing				
Fund liability	7,222,209	42,242	203,626	7,060,825
Other liabilities	24,629,032	15,398,958	27,417,351	12,610,639
Compensated absences payable	4,267,174	1,842,981	1,774,353	4,335,802
Total	\$ 169,034,285	59,088,677	78,045,583	150,077,379

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

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

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**(15) Troubled Debt Restructuring**

Restructuring a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The Authority makes every effort to work with borrowers and grants concessions to debtors if the probability of payment from the debtor increases. As of June 30, 2014 and 2013, the Authority has granted the following concessions to debtors, which are considered troubled debt restructuring. There are no commitments to lend additional resources to debtors who had a trouble debt restructuring.

<u>Single family loans</u>	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
Aggregated recorded balance	\$ 36,054,804	35,142,883
Number of loans	237	206
Gross interest revenue if loans had been current	\$ 2,076,338	2,152,925
Interest revenue included in changes in net position	\$ 1,496,317	1,489,004

<u>Multi family loans</u>	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
Aggregated recorded balance	\$ 1,562,385	3,688,700
Number of loans	3	3
Gross interest revenue if loans had been current	\$ 66,083	208,341
Interest revenue included in changes in net position	\$ —	80,136

**(16) Contingencies and Other Matters**

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

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

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**(17) Subsequent Events**

In addition to scheduled issuances and redemptions, the Authority made issuances and redemptions of notes and bonds payable subsequent to June 30, 2014 as follows:

	<u>Issuance/ redemption date</u>	<u>Amount</u>
Issues:		
Rental Housing Bonds 2014 Series A-Non-AMT	August 19, 2014	\$ 12,625,000
Redemptions:		
Commonwealth Mortgage Bonds 2005 A	July 1, 2014	7,275,000
Commonwealth Mortgage Bonds 2007 A	July 1, 2014	18,000,000
Homeownership Mortgage Bonds 2010 A	July 1, 2014	10,400,000
Rental Housing Bonds 2005 D-Taxable	September 1, 2014	34,580,000
Rental Housing Bonds 2005 E-AMT	September 1, 2014	39,310,000

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Required Supplementary Information (unaudited)

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

Year ended June 30, 2014

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability	Unfunded actuarial accrued liability (funded asset)	Funded ratio	Covered payroll	Unfunded (funded) as a percent of covered payroll
December 31, 2008	\$ 7,880,680	\$ 12,016,655	\$ 4,135,975	65.6	\$ 21,830,868	18.9%
December 31, 2009	10,333,985	16,280,849	5,946,864	65.6	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
December 31, 2012	16,224,392	16,302,613	78,221	99.5	25,286,960	0.3
December 31, 2013	20,374,633	16,692,588	(3,682,045)	122.1	26,235,656	(14.0)

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, 2013, the unfunded actuarial accrued liability (UAAL) for benefits was (\$3,682,045). The covered payroll (annual payroll of active employees covered by the RHC) was \$26,235,656 and the ratio of the UAAL to the covered payroll was (14.0%). As of December 31, 2013, the actuarial value of net assets held by the RHC Trust was \$20,374,633, the actuarial accrued liability was \$16,692,588, and the funded ratio was 122.1%. As of June 30, 2014, the RHC Trust had \$21,362,213 in net assets. As of June 30, 2013, the RHC Trust had \$17,337,066 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, 2013 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 7.5% 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 2014 ARC.

See accompanying independent auditors' report.

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

Combining Schedule of Net Position

June 30, 2014

Assets	<u>General Operating Accounts</u>	<u>Rental Housing Bond Group</u>	<u>Commonwealth Mortgage Bond Group</u>	<u>Home- ownership Bond Group</u>	<u>Total</u>
Current assets:					
Cash and cash equivalents	\$ 180,715,630	95,752,025	205,320,537	19,231,761	501,019,953
Investments	4,327,835	—	—	—	4,327,835
Interest receivable – investments	477,650	20,831	203,529	3,042	705,052
Mortgage loans held for sale	—	—	31,167,900	—	31,167,900
Mortgage and other loans receivable, net	3,427,928	78,315,936	91,280,818	12,144,263	185,168,945
Interest receivable – mortgage and other loans	338,317	17,372,679	13,124,321	1,301,034	32,136,351
Other real estate owned	—	36,847,395	13,088,876	500,753	50,437,024
Other assets	5,993,469	198,050	1,713,186	43,418	7,948,123
Total current assets	<u>195,280,829</u>	<u>228,506,916</u>	<u>355,899,167</u>	<u>33,224,271</u>	<u>812,911,183</u>
Noncurrent assets:					
Investments	168,097,801	10,804,727	70,886,020	2,156,483	251,945,031
Mortgage and other loans receivable	107,915,736	3,187,185,258	3,440,714,995	416,947,236	7,152,763,225
Less allowance for loan loss	19,025,743	44,716,669	128,595,995	7,563,925	199,902,332
Less net loan discounts	388,236	34,532,646	5,012,526	495,647	40,429,055
Mortgage and other loans receivable, net	88,501,757	3,107,935,943	3,307,106,474	408,887,664	6,912,431,838
Property, furniture, and equipment, less accumulated depreciation and amortization of \$31,770,833	11,385,322	13,192,354	—	—	24,577,676
Other assets	13,076,458	—	—	—	13,076,458
Total noncurrent assets	<u>281,061,338</u>	<u>3,131,933,024</u>	<u>3,377,992,494</u>	<u>411,044,147</u>	<u>7,202,031,003</u>
Total assets	<u>\$ 476,342,167</u>	<u>3,360,439,940</u>	<u>3,733,891,661</u>	<u>444,268,418</u>	<u>8,014,942,186</u>

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

Combining Schedule of Net Position

June 30, 2014

<b>Liabilities and Net Position</b>	<b>General Operating Accounts</b>	<b>Rental Housing Bond Group</b>	<b>Commonwealth Mortgage Bond Group</b>	<b>Home- ownership Bond Group</b>	<b>Total</b>
Current liabilities:					
Notes and bonds payable	\$ 157,000,000	78,050,000	151,832,755	41,326,846	428,209,601
Accrued interest payable on notes and bonds	10,107	31,562,260	29,925,726	2,894,907	64,393,000
Derivative instruments	—	—	787,672	—	787,672
Housing Choice Voucher contributions payable	188,369	—	—	—	188,369
Escrows	43,299,931	—	—	—	43,299,931
Accounts payable and other liabilities	16,838,886	204,417	6,579,269	—	23,622,572
Total current liabilities	<u>217,337,293</u>	<u>109,816,677</u>	<u>189,125,422</u>	<u>44,221,753</u>	<u>560,501,145</u>
Noncurrent liabilities:					
Bonds payable, net	—	2,117,658,491	2,187,357,634	355,756,475	4,660,772,600
Project reserves	126,070,113	—	—	—	126,070,113
Other liabilities	(5,627,300)	29,283,607	350,959	—	24,007,266
Total noncurrent liabilities	<u>120,442,813</u>	<u>2,146,942,098</u>	<u>2,187,708,593</u>	<u>355,756,475</u>	<u>4,810,849,979</u>
Total liabilities	<u>337,780,106</u>	<u>2,256,758,775</u>	<u>2,376,834,015</u>	<u>399,978,228</u>	<u>5,371,351,124</u>
Net position:					
Net (deficit) investment in capital assets	11,244,452	(4,840,542)	—	—	6,403,910
Restricted by bond indentures	—	1,108,521,707	1,357,057,646	44,290,190	2,509,869,543
Unrestricted	127,317,609	—	—	—	127,317,609
Total net position	<u>138,562,061</u>	<u>1,103,681,165</u>	<u>1,357,057,646</u>	<u>44,290,190</u>	<u>2,643,591,062</u>
Total liabilities and net position	<u>\$ 476,342,167</u>	<u>3,360,439,940</u>	<u>3,733,891,661</u>	<u>444,268,418</u>	<u>8,014,942,186</u>

See accompanying independent auditors' report.

## VIRGINIA HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

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

Year ended June 30, 2014

	General Operating Accounts	Rental Housing Bond Group	Commonwealth Mortgage Bond Group	Home- ownership Bond Group	Total
Operating revenues:					
Interest on mortgage and other loans receivable	\$ 19,155,088	214,024,551	187,403,013	19,289,606	439,872,258
Pass-through grants income	119,708,711	—	—	—	119,708,711
Housing Choice Voucher program income	9,846,526	—	—	—	9,846,526
Other real estate owned income	—	8,863,552	—	—	8,863,552
Gains and recoveries on sale of other real estate owned	1,592,421	111,817	4,587,531	37,116	6,328,885
Losses on sale of single family mortgage loans	—	—	(640,561)	—	(640,561)
Other	14,437,849	2,963,750	156,344	—	17,557,943
Total operating revenues	<u>164,740,595</u>	<u>225,963,670</u>	<u>191,506,327</u>	<u>19,326,722</u>	<u>601,537,314</u>
Operating expenses:					
Interest on notes and bonds payable	767,936	105,663,611	103,840,252	12,666,458	222,938,257
Salaries and related employee benefits	36,778,212	—	—	—	36,778,212
General operating expenses	25,294,205	—	—	—	25,294,205
Note and bond expenses	253,204	433,283	467,852	43,832	1,198,171
Bond issuance expenses	20,500	692,994	2,871,582	—	3,585,076
Pass-through grants expenses	119,708,711	—	—	—	119,708,711
Housing Choice Voucher program expenses	8,693,653	—	—	—	8,693,653
Servicing release premiums and guaranty fees	3,028,386	—	5,725,581	—	8,753,967
Other real estate owned expenses	—	8,879,967	—	—	8,879,967
Losses and expenses on other real estate owned	70,052	3,664,476	16,921,895	447,004	21,103,427
Provision for loan losses	6,381,585	(5,321,188)	20,483,518	1,409,218	22,953,133
Total operating expenses	<u>200,996,444</u>	<u>114,013,143</u>	<u>150,310,680</u>	<u>14,566,512</u>	<u>479,886,779</u>
Operating income (expense)	(36,255,849)	111,950,527	41,195,647	4,760,210	121,650,535
Nonoperating revenues (losses):					
Investment income	9,910,976	285,375	3,530,187	22,054	13,748,592
Unrealized loss on derivative instruments	—	—	(2,619,324)	—	(2,619,324)
Other, net	(2,127)	—	—	—	(2,127)
Total nonoperating revenues, net	<u>9,908,849</u>	<u>285,375</u>	<u>910,863</u>	<u>22,054</u>	<u>11,127,141</u>
Income (loss) before transfers	(26,347,000)	112,235,902	42,106,510	4,782,264	132,777,676
Transfers between funds					
Change in net position	(4,602,088)	110,081,083	23,802,107	3,496,574	132,777,676
Total net position, beginning of year (as restated)	<u>143,164,149</u>	<u>993,600,082</u>	<u>1,333,255,539</u>	<u>40,793,616</u>	<u>2,510,813,386</u>
Total net position, end of year	<u>\$ 138,562,061</u>	<u>1,103,681,165</u>	<u>1,357,057,646</u>	<u>44,290,190</u>	<u>2,643,591,062</u>

See accompanying independent auditors' report.

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

Combining Schedule of Net Position (as restated)

June 30, 2013

Assets	General Operating Accounts	Rental Housing Bond Group	Commonwealth Mortgage Bond Group	Home- ownership Bond Group	Total
Current assets:					
Cash and cash equivalents	\$ 198,888,063	181,932,256	682,185,154	69,825,336	1,132,830,809
Investments	2,641,341	—	—	—	2,641,341
Derivative instruments	—	—	1,831,652	—	1,831,652
Interest receivable – investments	519,489	28,146	354,629	8,649	910,913
Mortgage loans held for sale	—	—	18,228,326	—	18,228,326
Mortgage and other loans receivable, net	3,094,987	79,673,045	84,149,527	12,091,114	179,008,673
Interest receivable – mortgage and other loans	829,711	17,673,609	14,337,241	1,485,330	34,325,891
Other real estate owned	194,603	45,298,603	11,531,344	79,900	57,104,450
Other assets	8,692,972	342,969	1,505,221	—	10,541,162
Total current assets	<u>214,861,166</u>	<u>324,948,628</u>	<u>814,123,094</u>	<u>83,490,329</u>	<u>1,437,423,217</u>
Noncurrent assets:					
Investments	172,620,777	5,156,263	87,780,605	3,766,285	269,323,930
Mortgage and other loans receivable	99,171,867	3,133,757,480	3,500,811,975	453,534,964	7,187,276,286
Less allowance for loan loss	12,979,263	50,037,857	121,173,236	6,752,213	190,942,569
Less net loan discounts	53,886	27,702,550	8,939,767	538,913	37,235,116
Mortgage and other loans receivable, net	86,138,718	3,056,017,073	3,370,698,972	446,243,838	6,959,098,601
Property, furniture, and equipment, less accumulated depreciation and amortization of \$28,447,677	8,871,394	15,456,398	—	—	24,327,792
Other assets	9,016,835	—	—	—	9,016,835
Total noncurrent assets	<u>276,647,724</u>	<u>3,076,629,734</u>	<u>3,458,479,577</u>	<u>450,010,123</u>	<u>7,261,767,158</u>
Total assets	<u>\$ 491,508,890</u>	<u>3,401,578,362</u>	<u>4,272,602,671</u>	<u>533,500,452</u>	<u>8,699,190,375</u>

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

Combining Schedule of Net Position (as restated)

June 30, 2013

<b>Liabilities and Net Position</b>	<b>General Operating Accounts</b>	<b>Rental Housing Bond Group</b>	<b>Commonwealth Mortgage Bond Group</b>	<b>Home- ownership Bond Group</b>	<b>Total</b>
Current liabilities:					
Notes and bonds payable	\$ 151,046,767	71,375,000	142,556,770	88,848,000	453,826,537
Accrued interest payable on notes and bonds	9,698	31,382,074	40,133,276	3,195,140	74,720,188
Housing Choice Voucher contributions payable	85,334	—	—	—	85,334
Escrows	46,913,410	—	—	—	46,913,410
Accounts payable and other liabilities	13,902,404	255,066	7,484,681	—	21,642,151
Total current liabilities	<u>211,957,613</u>	<u>103,012,140</u>	<u>190,174,727</u>	<u>92,043,140</u>	<u>597,187,620</u>
Noncurrent liabilities:					
Bonds payable, net	—	2,272,889,882	2,748,601,506	400,663,696	5,422,155,084
Project reserves	132,915,870	—	—	—	132,915,870
Other liabilities	3,471,258	32,076,258	570,899	—	36,118,415
Total noncurrent liabilities	<u>136,387,128</u>	<u>2,304,966,140</u>	<u>2,749,172,405</u>	<u>400,663,696</u>	<u>5,591,189,369</u>
Total liabilities	<u>348,344,741</u>	<u>2,407,978,280</u>	<u>2,939,347,132</u>	<u>492,706,836</u>	<u>6,188,376,989</u>
Net position:					
Net investment in capital assets	8,871,394	(2,722,602)	—	—	6,148,792
Restricted by bond indentures	—	996,322,684	1,333,255,539	40,793,616	2,370,371,839
Unrestricted	134,292,755	—	—	—	134,292,755
Total net position	<u>143,164,149</u>	<u>993,600,082</u>	<u>1,333,255,539</u>	<u>40,793,616</u>	<u>2,510,813,386</u>
Total liabilities and net position	<u>\$ 491,508,890</u>	<u>3,401,578,362</u>	<u>4,272,602,671</u>	<u>533,500,452</u>	<u>8,699,190,375</u>

See accompanying independent auditors' report.

## VIRGINIA HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Revenues, Expenses, and Changes in Net Position (as restated)

Year ended June 30, 2013

	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	\$ 4,030,980	218,015,253	11,260,500	200,154,072	31,042,852	464,503,657
Pass-through grants income	127,749,666	—	—	—	—	127,749,666
Housing Choice Voucher program income	6,613,190	—	—	—	—	6,613,190
Other real estate owned income	—	10,812,861	—	—	—	10,812,861
Gains and recoveries on sale of other real estate	12,281	1,864,199	52,529	4,551,293	—	6,480,302
Gains on sale of single family mortgage loans	—	—	—	10,708,851	11,037,863	21,746,714
Other	12,269,855	2,047,491	850,196	100,785	—	15,268,327
Total operating revenues	<u>150,675,972</u>	<u>232,739,804</u>	<u>12,163,225</u>	<u>215,515,001</u>	<u>42,080,715</u>	<u>653,174,717</u>
Operating expenses:						
Interest on notes and bonds	816,855	113,526,921	4,300,175	123,940,979	23,918,738	266,503,668
Salaries and related employee benefits	35,384,061	—	—	—	—	35,384,061
General operating expenses	21,320,657	—	—	—	—	21,320,657
Note and bond expenses	441,638	—	—	—	—	441,638
Bond issuance expenses	79,214	3,393,223	—	6,351,451	887,769	10,711,657
Pass-through grants expenses	127,749,666	—	—	—	—	127,749,666
Housing Choice Voucher program expenses	8,678,837	—	—	—	—	8,678,837
Servicing release premiums and guaranty fees	1,408,281	376	456	7,090,519	—	8,499,632
Other real estate owned expenses	—	12,067,640	—	—	—	12,067,640
Losses and expenses on other real estate owned	194,528	15,135,900	716,608	18,257,260	24,524	34,328,820
Provision for loan losses	8,207,881	5,545,763	(10,737,571)	42,383,786	3,746,342	49,146,201
Total operating expenses	<u>204,281,618</u>	<u>149,669,823</u>	<u>(5,720,332)</u>	<u>198,023,995</u>	<u>28,577,373</u>	<u>574,832,477</u>
Operating income (expense)	(53,605,646)	83,069,981	17,883,557	17,491,006	13,503,342	78,342,240
Nonoperating revenues (losses):						
Investment income (loss)	12,087,640	9,825,369	50,939	(4,440,433)	364,054	17,887,569
Unrealized gain on derivative instruments	—	—	—	2,468,039	—	2,468,039
Other, net	(8,746)	—	—	—	—	(8,746)
Total nonoperating revenues (losses), net	<u>12,078,894</u>	<u>9,825,369</u>	<u>50,939</u>	<u>(1,972,394)</u>	<u>364,054</u>	<u>20,346,862</u>
Income (loss) before transfers	(41,526,752)	92,895,350	17,934,496	15,518,612	13,867,396	98,689,102
Transfers between funds	87,151,589	81,787,824	(202,597,320)	17,214,184	16,443,723	—
Change in net position	<u>45,624,837</u>	<u>174,683,174</u>	<u>(184,662,824)</u>	<u>32,732,796</u>	<u>30,311,119</u>	<u>98,689,102</u>
Total net position, beginning of year	99,004,504	800,774,874	183,359,435	1,303,904,695	18,104,577	2,405,148,085
Cumulative effect of change in accounting principle	(1,465,192)	18,142,034	1,303,389	(3,381,952)	(7,622,080)	6,976,199
Total net position, beginning of year, (as restated)	<u>97,539,312</u>	<u>818,916,908</u>	<u>184,662,824</u>	<u>1,300,522,743</u>	<u>10,482,497</u>	<u>2,412,124,284</u>
Total net position, end of year (as restated)	<u>\$ 143,164,149</u>	<u>993,600,082</u>	<u>—</u>	<u>1,333,255,539</u>	<u>40,793,616</u>	<u>2,510,813,386</u>

See accompanying independent auditors' report.



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

The Board of Commissioners  
Virginia Housing Development Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated September 15, 2014, which included a paragraph emphasizing that in fiscal year 2014, the Authority retrospectively adopted new accounting guidance in Government Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

**Internal Control Over Financial Reporting**

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

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

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



### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

**KPMG LLP**

September 15, 2014