KPMG

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, 2017 and 2016

(With Independent Auditor's Reports Thereon)

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

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Management of the Virginia Housing Development Authority (Authority) offers readers of its financial report this overview and analysis of the Authority's financial performance for the years ended June 30, 2017 and 2016. 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 (Commonwealth), created under the Virginia Housing Development Authority Act (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. Revenues are generated primarily from interest on mortgage loans, program administration fees, and investment income.

The Authority participates in the Government National Mortgage Association (GNMA) Mortgage-backed Securities (MBS) programs. Through these MBS programs, the Authority issues GNMA securities which may be held by the Authority or sold to third parties and that are backed by pools of mortgage loans. Once sold, the mortgage loans are no longer assets of the Authority nor pledged to any bond resolution. Each GNMA security represents an undivided ownership interest in a pool of homeownership mortgage loans and carries the full faith and guaranty of the United States (U.S.) government. The GNMA guaranty ensures the owner of the security issued by the Authority receives timely payment of scheduled monthly principal and interest payments at the rate provided by the securities. All mortgage loans under the GNMA MBS programs are insured or guaranteed by the Federal Housing Administration (FHA), U.S. Department of Agricultural Rural Development, or the Veterans Administration.

The Authority also participates in several Federal National Mortgage Association (FNMA) Mortgage-backed Securities (MBS) programs. The Authority may sell to FNMA homeownership mortgage loans under its whole loan program or it may issue FNMA securities backed by homeownership mortgage loans which securities may be held by the Authority or sold to third parties. Once sold, the mortgage loans are no longer assets of the Authority nor pledged to any bond resolution. The FNMA guaranty ensures the owner of the security issued by the Authority receives timely payment of scheduled monthly principal and interest payments at the rate provided by the securities.

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 (HCV) program, which provides rental subsidies from federal funds, and the federal Low Income Housing Tax Credit (LIHTC) program, which awards income tax credits for the purpose of developing low-income rental 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 fiscal year change in net position used to provide such grants or reduced interest rates on mortgage loans or otherwise subsidize its programs is determined by VHDA's Board of Commissioners. Effective fiscal year 2017 the amount increased from 20% to 40%, 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 amounts made available to provide reduced interest rates on mortgage loans or otherwise provide housing subsidies, including grants, under its programs are subject to review by the Authority of the impact on its financial position. The Authority finances some, but not all, of such subsidized mortgage loans, in whole or in part, with funds under its various bond resolutions.

Financial Statements

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

The *Statement of Net Position* reports 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 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 position of the Authority is improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Position* identifies 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, investment income, externally funded programs and other revenue sources.

The *Statement of Cash Flows* provides information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash transactions, including receipts, payments, and net changes resulting from operations, noncapital financing, capital financing, and investing activities. 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 basic financial statements and as such, are an integral part of the Authority's financial statements.

Financial Highlights

Overview

The Authority continues to maintain a strong financial position, with a net position of $3.15 billion that grew at a rate of 5.3% over the past twelve months. 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 homeownership loan program, the Authority has been able to offer borrowers mortgage loans at affordable interest rates, financed through the issuance of taxable bonds and MBS guaranteed by GNMA and FNMA. Participation in the FNMA Housing Finance Agency (HFA) Preferred Risk Sharing Programs has allowed the Authority to finance homeownership mortgage loans with either no mortgage insurance or private mortgage insurance and, unlike tax-exempt bonds, permits the funding of refinancing loans and loans to borrowers who are not first time homebuyers. Since inception in spring of 2015, the Authority has disbursed $38.2 million to provide down-payment assistance (DPA) grants for qualified first time homebuyers and has offered a new Mortgage Credit Certificate (MCC) program that provides even more tax advantages to low or moderate income borrowers getting homeownership mortgage loans.

In its rental housing program, the Authority has continued to fund developments through the issuance of tax-exempt and taxable bonds. Despite the increased use of REACH funds to make tax-exempt bond funded developments financially feasible, rental housing financing became increasingly challenging in FY 2017 due to lower cost options in the marketplace offered by the federal government-sponsored entities (GSE) and the volatility in the tax credit market, due to uncertainty of future corporate tax rates. In February 2016, the Authority was approved to originate loans using a federal risk-sharing program whereby rental housing mortgage loans will be insured by FHA and financed through the Federal Financing Bank (FFB). The Authority has begun to access this lower cost of capital by financing two loans with this new risk-sharing/FFB program in fiscal year 2017 for $10.8 million, whereby the Authority has assumed a 90% risk-share and HUD has assumed 10%.

The Authority's servicing efforts for its homeownership loan portfolio have been focused on working with homeownership mortgagors experiencing financial difficulties and mitigating potential foreclosure losses. The Authority has continued to offer various options, including loan modifications, to prevent foreclosure for otherwise responsible homeownership mortgagors encountering financial hardships. While employment levels, wages, and housing values have begun to recover in Virginia, challenges for the Authority's homeownership mortgagors are expected to continue. Additionally, the Authority has provided substantial support to the Commonwealth's housing policy priorities, and its homeownership education, underwriting and loss mitigation practices continue to help lessen delinquencies and foreclosures.

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

While the Authority continues to face challenges from uncertainty in the financial markets affecting interest rates and the overall economic environment, the Authority's capital acquisition initiatives and loss mitigation practices have allowed the Authority to respond with new lending program opportunities and maintain a strong financial position.

Year ended June 30, 2017

Homeownership mortgage loan originations totaled 8,271 loans for $1,620.4 million in fiscal year 2017 compared to 5,130 loans for $951.8 million for fiscal year 2016, contributing an increase of 61.2% in units and 70.3% in dollars of mortgage loans. A substantial portion of the increase was related to the surge of the DPA and MCC programs since their introduction in the spring of 2015.

As of June 30, 2017, the Authority serviced for itself and for third parties a total of 65,255 first and second homeownership mortgage loans with outstanding balances totaling $6.5 billion. Approximately 20,500 of the mortgage loans are serviced for GNMA and FNMA, for which the Authority receives a servicing fee. The outstanding balances of loans serviced, increased by $987.7 million or 17.9% and the number of loans serviced increased by 5,790 loans or 9.7%, since June 30, 2016, primarily in the form of FNMA Risk Share mortgage loans and FHA insured first lien mortgage loans that have been pooled into MBS guaranteed by GMNA and originated with corresponding uninsured second lien mortgage loans.

In fiscal year 2017, there were 412 homeownership mortgage foreclosures valued at $45.3 million or 1.4% of the homeownership mortgage loan portfolio, compared to a year ago also with 431 foreclosures valued at $48.1 million or 1.4% of loan amounts. Recovery rates averaging 70.4%, representing an improvement of 2.3% over the prior year, somewhat mitigated the impact of loan losses. Total delinquency rates on the servicing portfolio based on loan count averaged 9.5% for the fiscal year, compared to 10.4% a year ago. Total delinquency rates on the servicing portfolio based on outstanding mortgage loan balances averaged 8.3% and 9.6% as of June 30, 2017 and 2016, respectively. Delinquencies consist of first mortgage loans over 30 days past due and foreclosures and bankruptcies.

Financing commitments for 1,854 rental housing units were made during the fiscal year, totaling $152.7 million, compared to 4,489 units totaling $369.9 million for fiscal year 2016. Recapitalization and rehabilitation of developments within the Authority's existing rental housing portfolio using new taxable and tax-exempt financing and REACH funds provided the majority of the rental housing mortgage loan production. The year over year decrease was primarily the result of the availability of lower long term interest rates offered by the GSE's which made VHDA's offerings less attractive to borrowers.

As of June 30, 2017, the Authority serviced 1,209 rental housing mortgage loans with outstanding balances totaling $3.2 billion. Compared June 30, 2016, the number of loans in the portfolio decreased 46 while loan balances decreased $69.3 million or 2.1%. Delinquency rates based on rental housing portfolio loan count averaged 0.4% and 0.7% for the years ended June 30, 2017 and 2016, respectively. The average delinquency rates based on outstanding mortgage loan balances were 0.2% or $5.4 million for fiscal year 2017 compared to 1.2% or $37.1 million for fiscal year 2016.

Year ended June 30, 2016

Homeownership mortgage loan originations totaled 5,130 loans for $951.8 million in fiscal year 2016 compared to 3,688 loans for $632.8 million for the same period last year, contributing an increase of 39.1% in units and 50.4% in dollars of mortgage loans. A substantial portion of the increase was related to the DPA and MCC programs introduced in the spring of 2015.

(Continued)

As of June 30, 2016, the Authority serviced 59,465 first and second homeownership mortgage loans with outstanding balances totaling $5.5 billion. The outstanding balances of loans serviced, increased by $385.1 million or 7.5% and the number of loans serviced increased by 2,444 loans or 4.3%, since June 30, 2015, primarily in the form of FNMA Risk Share mortgage loans and FHA insured mortgage loans that have been pooled into securities guaranteed by GMNA with corresponding uninsured second mortgage loans.

In fiscal year 2016, there were 431 homeownership mortgage foreclosures valued at $50.2 million or 1.4% of the homeownership loan portfolio, compared to a year ago with 508 foreclosures valued at $59.9 million or 1.6% of loan amounts. Recovery rates averaging 68.1% somewhat mitigated the impact of loan losses. Total delinquency rates on the servicing portfolio based on loan count averaged 10.4% for the fiscal year, compared to 11.4% a year ago. Total delinquency rates on the servicing portfolio based on outstanding mortgage loan balances averaged 9.6% and 10.7% as of June 30, 2016 and 2015, respectively. Delinquencies consist of first mortgage loans over 30 days past due, and foreclosures and bankruptcies.

Financing commitments for 4,489 rental housing units were made during the fiscal year, totaling $369.9 million, compared to 4,163 units totaling $353.0 million for the same period a year ago. Recapitalization and rehabilitation of developments within the Authority's existing rental housing portfolio using new taxable and tax-exempt financing and REACH funds provided the majority of the mortgage loan production.

As of June 30, 2016, the Authority serviced 1,255 rental housing mortgage loans with outstanding balances totaling $3.3 billion. Compared to June 30, 2015, the number of loans in the portfolio decreased 73 while loan balances decreased by $20.9 million or 0.6%. Delinquency rates based on portfolio loan count averaged 0.7% and 0.9% for the fiscal year ended June 30, 2016 and 2015, respectively. The average delinquency rates based on outstanding mortgage loan balances were 1.2% or $37.1 million for the fiscal year ended June 30, 2016 compared to 0.2% or $6.9 million for the same period a year ago.

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 homeownership mortgagors and rental housing developments, funding for new mortgage loan originations, working capital for operating costs of the Authority, governmental funds held for disbursement toward Section 8 developments, and other funds held in a fiduciary capacity to support other housing initiatives. Monies on deposit in banks located in Virginia are collateralized pursuant to 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 Standard & Poor's 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 homeownership mortgage loans, particularly when such mortgage loans are expected to be pooled into securities guaranteed by GNMA or FNMA. The Authority does not enter into short sales, forward 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 guaranteed mortgage loan securitizations, HUD risk-share and FFB financing programs, and net position accumulated since inception. Mortgage loan payments received from mortgagors are used to pay debt service due on outstanding bonds and MBS.

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 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.

Condensed Statements of Net Position (Unaudited)

(In millions)

		June 30		
		2017	**2016**	**2015**
Cash and cash equivalents	$	894.3	1,027.6	629.0
Investments		548.6	512.4	526.5
Mortgage loans held for sale		195.2	174.4	143.8
Mortgage and other loans receivable, net		5,822.9	6,202.0	6,611.4
Other assets		131.5	108.6	130.2
Total assets	$	7,592.5	8,025.0	8,040.9

Condensed Statements of Net Position (Unaudited)

(In millions)

		June 30		
		2017	2016	2015
Notes and bonds payable, net	$	4,198.8	4,765.5	4,963.4
Other liabilities		242.4	267.5	257.2
Total liabilities	$	4,441.2	5,033.0	5,220.6
Net investment in capital assets	$	13.5	14.4	8.7
Restricted by bond indentures		2,886.0	2,826.0	2,682.3
Unrestricted		251.8	151.6	129.3
Total net position	$	3,151.3	2,992.0	2,820.3

June 30, 2017 Compared to June 30, 2016

Total assets decreased $432.5 million, or 5.4% from the prior year. Cash and cash equivalents and investments decreased $97.1 million, or 6.3% from the prior year to fund debt obligations. Mortgage and other loans receivables, net, decreased by $358.3 million, or 5.6%, primarily as a result of securitizations of homeownership loans through GNMA and FNMA.

Total liabilities decreased $591.8 million, or 11.8% from the prior year. Notes and bonds payable decreased $566.7 million or 11.9%, due primarily to bond redemptions and scheduled principal repayments. For the year ended June 30, 2017, the Authority issued $150.1 million of Commonwealth Mortgage bonds, $60.9 million of Rental Housing bonds and made net draws of $16.7 million on notes and lines of credit. Bond principal repayments and redemptions in the year totaled $889.4 million, and included bond redemptions of $507.6 million. Proceeds from the Commonwealth and Rental Housing Bond Groups and GNMA and FNMA mortgage loan securitizations were the principal sources of funding for mortgage loan originations.

Total assets exceeded total liabilities by $3,151.3 million, representing an increase in net position of $159.3 million, and a 5.3% return over the preceding twelve months. As of June 30, 2017, net position invested in capital assets, net of related debt, was $13.5 million. Net position restricted by bond resolutions totaled $2,886.0 million, an increase of $60.0 million, or 2.1% from the prior year. Unrestricted net position totaled $251.8 million, an increase of $100.2 million, or 66.1%.

June 30, 2016 Compared to June 30, 2015

Total assets decreased $15.7 million, or 0.2% from the prior year. Cash and cash equivalents and investments, combined, increased $384.5 million, or 33.3% from the prior year as a result of an increase in the amount of homeownership loans pooled into mortgage backed securities and held as collateral on a credit facility with the Federal Home Loan Bank of Atlanta. Mortgage loans held for sale and mortgage and other loans receivables, net, decreased by $378.8 million, or 5.6%, primarily the result of securitizations of homeownership loans through GNMA and FNMA.

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Total liabilities decreased $187.4 million, or 3.6% from the prior year. Notes and bonds payable decreased $197.9 million or 4.0%, due primarily to bond redemptions and scheduled principal repayments. For the fiscal year, the Authority issued $234.2 million in Rental Housing bonds and $291.0 million in Commonwealth Mortgage bonds. Additionally, $26.0 million of draws and $46.0 million in repayments were made on the notes and lines of credit to net to a $20.0 million pay down for the fiscal year ended. Bond principal pay downs and redemptions totaled $703.1 million, and included bond redemptions of $431.7 million. Proceeds from the Rental Housing Bond Group and GNMA and FNMA mortgage loan securitizations were the principal sources of funding for mortgage loan originations.

Total assets exceeded total liabilities by $2,992.0 million, representing an increase in net position of $171.7 million, and a 6.1% return over the preceding twelve months. As of June 30, 2016, net position invested in capital assets, net of related debt, was $14.4 million. Net position restricted by bond resolutions totaled $2,826.0 million, an increase of $143.7 million, or 5.4% from the prior year. Unrestricted net position totaled $151.6 million, an increase of $22.3 million, or 17.2%.

Condensed Statements of Revenues, Expenses and Changes in Net Position (Unaudited)

(In millions)

	Year ended June 30		
	2017	2016	2015
Operating revenues:			
Interest on mortgage and other loans	$ 333.8	371.2	411.0
Pass-through grants received	117.9	117.4	119.1
Housing Choice Voucher program income	6.8	6.2	5.9
Other operating revenues	64.3	59.3	33.9
Total operating revenues	522.8	554.1	569.9
Operating expenses:			
Interest on notes and bonds payable	153.2	178.5	197.4
Pass-through grants disbursed	117.9	117.4	119.1
Housing Choice Voucher program expense	6.9	6.1	8.0
Other operating expenses	103.1	100.4	96.6
Total operating expenses	381.1	402.4	421.1
Operating income	141.7	151.7	148.8

Condensed Statements of Revenues, Expenses and Changes in Net Position (Unaudited)

(In millions)

		Year ended June 30		
		2017	**2016**	**2015**
Nonoperating revenues (expenses):				
Investment income, net	$	11.0	24.7	27.0
Unrealized gain/(loss) on derivatives		6.4	(4.9)	0.6
Other nonoperating revenues (expenses)		0.2	0.2	0.3
Total nonoperating revenues, net		17.6	20.0	27.9
Change in net position	$	159.3	171.7	176.7

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, net.

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 primarily consist of investment income which includes realized and unrealized gains or losses on investments and investment derivatives.

Fiscal Year 2017

Operating revenues decreased $31.3 million or 5.6% from the prior year. The decrease was primarily attributable to interest on mortgage and other loans, which decreased by $37.4 million or 10.1%. Contributing factors were lower mortgage loan balances due to the increase usage of homeownership loan securitizations and an average interest rate of 4.3% on the remaining homeownership loan balances, a rate 0.4 percentage points lower than the prior year.

Operating expenses for the quarter decreased $21.3 million or 5.3% from the prior year. The decrease was primarily the result of a reduction in interest on notes and bonds payable of $25.3 million or 14.2%, due to a decrease in overall debt and a lower average interest rate on the notes and bonds outstanding. Other operating expenses increased $2.7 million or 2.7%, due primarily to DPA and other REACH grant awards and MCC incentive expenses.

Nonoperating revenues, net, decreased by $2.4 million from the prior year, primarily as a result of lower unrealized gains on investments in the current year, partially offset by higher unrealized gains on investment derivatives.

Fiscal Year 2016

Operating revenues decreased $15.8 million or 2.8% from the prior year. The decrease was primarily attributable to interest on mortgage and other loans, which decreased by $39.8 million or 9.7%. Contributing factors were lower mortgage loan balances due to the increase usage of homeownership loan securitizations and a lower average interest rate of 4.7% on the remaining homeownership loan balances. The reduction in mortgage interest income was offset by increased revenue from gains on homeownership loan sales and mortgage servicing income from securitized mortgage loans included in other operating revenues, which increased $25.4 million or 74.9%.

Operating expenses for the fiscal year decreased $18.7 million or 4.4% from the prior year. The decrease was primarily the net effect of a reduction in interest on notes and bonds payable of $18.9 million or 9.6%, due to a decrease in overall debt and a lower average interest rate on the notes and bonds outstanding offset by an increase in other operating expenses of $3.8 million or 3.9%, due primarily to the cost of down-payment assistance grants awarded under the REACH Program.

Nonoperating revenues, net, decreased $7.9 million from the prior year, due to lower unrealized gains on investments and higher unrealized losses on investment derivatives.

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 mortgage loans compared to mortgage loan products available in the mortgage loan market, 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 loans through GNMA and FNMA are key elements in providing the funding necessary for the Authority to continue its mortgage loan financing activities.

The Authority's main sources of revenues include mortgage loan interest, gains on sale of mortgage loans and mortgage servicing fees. Short-term investment rates in the United States have declined sharply from a pre-recession peak of approximately 5.0% in February 2007 to 0.84% and 0.20% in June 2017 and 2016, respectively.

Delinquency and foreclosure rates in the homeownership loan portfolio, and to a lesser extent the rental housing loan portfolio, are influenced by unemployment and underemployment. Virginia's seasonally adjusted unemployment rate was 3.7% and 4.0% in June, 2017 and 2016, respectively. Virginia underemployment rates, which include those no longer seeking employment and those employed only part-time who desire full-time work, were 8.4% and 9.3% in the twelve months ended June 30, 2017 and 2016, respectively.

Additional Information

Questions about this report or additional information can be obtained by visiting the Authority's Web site, www.vhda.com, or contacting the Finance Division of the 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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements for the years then ended 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, 2017 and 2016, 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.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management Discussion and Analysis and Schedule of Funding Progress by Plan Valuation Date on pages 1–10 and 49 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on Authority's basic financial statements. The supplementary information included on Schedules 2 through 5 on pages 50 through 55 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information included in Schedules 2 through 5 on pages 50 through 55 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 14, 2017 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness over the Authority's 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

Richmond, Virginia
September 14, 2017

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

Statements of Net Position

June 30, 2017 and 2016

Assets		**2017**	**2016**
Current assets:			
Cash and cash equivalents (note 5)	$	894,272,781	1,027,561,804
Investments (note 5)		—	2,519,688
Interest receivable – investments		2,224,714	2,013,198
Derivative instruments (note 10)		1,274,922	—
Mortgage loans held for sale (note 1)		195,208,735	174,398,370
Mortgage and other loans receivable (note 4)		156,689,172	175,342,656
Interest receivable – mortgage and other loans		25,147,446	28,789,834
Housing Choice Voucher contributions receivable		9,681	109,032
Other real estate owned (note 1)		27,027,600	24,788,006
Other assets		7,971,809	11,987,778
Total current assets		1,309,826,860	1,447,510,366
Noncurrent assets:			
Investments (note 5)		548,601,866	509,853,610
Mortgage and other loans receivable (note 4)		5,857,891,631	6,242,352,882
Less allowance for loan loss (note 1)		154,336,393	178,122,040
Less net loan discounts		37,394,679	37,540,656
Mortgage and other loans receivable, net		5,666,160,559	6,026,690,186
Property, furniture, and equipment, less accumulated depreciation and amortization of $35,095,820 and $37,537,944, respectively (note 6)		24,134,987	25,375,900
Mortgage servicing rights, net (note 1)		25,426,265	9,488,770
Other assets		18,290,333	6,014,176
Total noncurrent assets		6,282,614,010	6,577,422,642
Total assets	$	7,592,440,870	8,024,933,008
Liabilities and Net Position			
Current liabilities:			
Notes and bonds payable (note 7)	$	768,564,253	901,502,903
Accrued interest payable on notes and bonds		36,595,554	48,277,920
Escrows (note 9)		33,695,294	35,264,259
Derivative instruments (note 10)		—	5,089,335
Accounts payable and other liabilities (note 11)		24,874,871	40,303,651
Total current liabilities		863,729,972	1,030,438,068
Noncurrent liabilities:			
Bonds payable, net (note 7)		3,430,214,929	3,864,032,415
Project reserves (notes 9 and 15)		113,864,723	118,787,264
Loan participation payable to Federal Financing Bank (note 8)		10,804,167	—
Other liabilities (notes 11, 13, and 15)		22,560,675	19,731,990
Total noncurrent liabilities		3,577,444,494	4,002,551,669
Total liabilities		4,441,174,466	5,032,989,737
Net position (notes 1 and 12):			
Net investment in capital assets		13,498,563	14,356,199
Restricted by bond indentures		2,885,941,948	2,825,966,445
Unrestricted		251,825,893	151,620,627
Total net position		3,151,266,404	2,991,943,271
Total liabilities and net position	$	7,592,440,870	8,024,933,008

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2017 and 2016

		2017	2016
Operating revenues:			
Interest on mortgage and other loans receivable	$	333,805,796	371,212,630
Pass-through grant awards (note 1)		117,946,339	117,399,381
Housing Choice Voucher program administrative income (note 1)		6,798,165	6,189,835
Other real estate owned income		3,938,973	7,003,999
Gains and recoveries on sale of other real estate owned		7,107,832	12,161,083
Gains on sale of single family mortgage loans		24,588,598	16,354,541
Mortgage servicing fees net of guaranty fees		20,751,322	13,509,023
Other		7,901,718	10,316,012
Total operating revenues		522,838,743	554,146,504
Operating expenses:			
Interest on notes and bonds payable		153,203,844	178,508,284
Salaries and related employee benefits (notes 13 and 14)		46,460,248	44,042,059
General operating expenses		49,152,020	40,614,966
Note and bond expenses		943,472	958,315
Bond issuance expenses		1,552,559	3,701,004
Pass-through grants expenses (note 1)		117,946,339	117,399,381
Housing Choice Voucher program expenses (note 1)		6,871,301	6,099,153
Servicing release premiums and other servicing costs		10,694,748	7,066,536
Other real estate owned expenses		2,656,861	4,732,727
Losses on other real estate owned (note 1)		7,550,170	3,480,731
Provision for loan losses (note 1)		(15,946,595)	(4,126,638)
Total operating expenses		381,084,967	402,476,518
Operating income		141,753,776	151,669,986
Nonoperating revenues (losses):			
Investment income (note 11)		11,030,920	24,651,932
Unrealized gain (loss) on derivative instruments (note 10)		6,364,257	(4,864,386)
Other, net		174,180	200,653
Total nonoperating revenues, net		17,569,357	19,988,199
Change in net position		159,323,133	171,658,185
Total net position, beginning of year		2,991,943,271	2,820,285,086
Total net position, end of year	$	3,151,266,404	2,991,943,271

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash payments for mortgage and other loans	$ (1,923,794,301)	(1,201,553,022)
Principal repayments on mortgage and other loans	715,293,031	710,228,720
Sale of mortgage loans	1,408,079,567	769,109,513
Interest received on mortgage and other loans	342,550,186	355,182,226
Pass-through grant awards received	117,946,339	117,399,381
Pass-through grant awards disbursed	(117,946,339)	(117,399,381)
Housing Choice Voucher payments received	7,754,978	7,022,094
Housing Choice Voucher payments disbursed	(7,731,023)	(6,879,271)
Escrow and project reserve payments received	222,520,649	229,204,165
Escrow and project reserve payments disbursed	(229,010,380)	(238,341,921)
Other operating revenues	62,472,564	51,407,115
Cash received for loan origination fees	2,552,332	4,537,837
Cash paid for loan premiums	(17,766,998)	(9,033,993)
Cash payments for salaries and related benefits	(45,229,887)	(43,466,252)
Cash payments for general operating expenses	(73,481,132)	(17,520,644)
Cash payments for servicing release premiums and guaranty fees	(32,123,841)	(15,937,010)
Proceeds from sale of other real estate owned	38,636,521	47,303,388
Disposition of other real estate owned property	1,282,108	2,271,272
Net cash provided by operating activities	472,004,374	643,534,217
Cash flows from noncapital financing activities:		
Proceeds from issuance of notes and bonds	322,688,524	551,250,012
Proceeds from loan participation – FFB	10,804,167	—
Principal payments on notes and bonds	(889,359,755)	(749,091,998)
Interest payments on notes and bonds	(164,971,114)	(187,341,942)
Cash payments for bond issuance expenses	(1,552,558)	(3,701,004)
Net cash used in noncapital financing activities	(722,390,736)	(388,884,932)
Cash flows from capital and related financing activities:		
Purchases of property, furniture, and equipment	(2,266,246)	(2,427,591)
Proceeds from the sale of property, furniture and equipment	—	7,452
Net cash used in capital and related financing activities	(2,266,246)	(2,420,139)
Cash flows from investing activities:		
Purchases of investments	—	(2,775,743)
Proceeds from sales or maturities of investments	97,000,893	128,985,736
Interest received on investments	22,362,692	20,155,698
Net cash provided by investing activities	119,363,585	146,365,691
Net (decrease) increase in cash and cash equivalents	(133,289,023)	398,594,837
Cash and cash equivalents, at beginning of year	1,027,561,804	628,966,967
Cash and cash equivalents, at end of year	$ 894,272,781	1,027,561,804

(Continued)

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

Statements of Cash Flows

Years ended June 30, 2017 and 2016

		2017	2016
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	141,753,776	151,669,986
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation of property, furniture, and equipment		3,507,159	3,372,270
Bond issuance costs		1,552,558	3,701,004
Interest on notes and bonds payable		153,203,844	178,508,284
Increase in mortgage loans held for sale		(20,810,365)	(30,570,957)
Decrease in mortgage and other loans receivable		258,527,673	316,322,126
Decrease in allowance for loan loss		(23,785,647)	(15,733,817)
(Decrease)/increase in net loan discounts		(145,977)	851,733
Decrease in interest receivable – mortgage and other loans		3,642,388	1,231,046
(Increase)/decrease in other real estate owned		(2,239,594)	29,452,167
Decrease in Housing Choice Voucher contributions receivable		99,351	263,431
Increase in mortgage servicing rights		(15,937,495)	(5,623,631)
Increase in other assets		(8,260,187)	(4,224,734)
(Decrease)/increase in accounts payable and other liabilities		(12,600,095)	23,253,717
Decrease in escrows and project reserves		(6,503,015)	(8,938,408)
Net cash provided by operating activities	$	472,004,374	643,534,217
Supplemental disclosure of noncash activity:			
Increase in other real estate owned as a result of loan foreclosures	$	47,368,260	48,137,291
Decrease in mortgage and other loans receivable from transferring loans to MBS securities retained as investments		144,587,062	107,967,324

See accompanying notes to basic financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The Virginia Housing Development Authority (Authority) was created under the Virginia Housing Development Authority Act, as amended (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) guaranteed 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 (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 component units, are combined to form the component units 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 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) Fair Value Hierarchy

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, fair value measurements not valued at net asset value using the practical expedient are categorized into a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset. Classification of assets within the hierarchy considers the markets in which assets are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available.

(Continued)

The levels of the hierarchy are defined as follows:

- Level 1 – Valuation is based on quoted prices (unadjusted) for identical assets in an active market.
- Level 2 – Valuation is based upon quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active and assets valued based on observable market data and market-corroborated inputs for similar instruments.
- Level 3 – Valuation is based upon various techniques that use assumptions that are not observable in the market and are significant to the fair value measurement.

In determining which hierarchy level a financial instrument is classified, the Authority considers all available information, including observable market data and indications of market liquidity. Assets and liabilities that are valued at fair value on a recurring basis include investments and derivative instruments. Assets that are measured on a nonrecurring basis include other real estate owned and mortgage loans held for sale as these are carried at the lower of cost or market.

(e) Investments

Investments include various debt and asset backed securities which are reported at fair value on the Statements of Net Position, with changes in fair value recognized in investment income in the Statements of Revenues, Expenses, and Changes in Net Position. The fair value of the debt securities are derived from management's review of third party pricing services that use various models that are based on quoted market prices when available or on adjusted values in relation to observable prices on similar investments. The fair value of assets backed securities which include agency-mortgage backed securities are also derived from management's review of third party pricing services that use various models that are based on quoted market prices when available or on adjusted values in relation to observable prices on similar investments.

(f) 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, 2017, the Authority had outstanding 61 forward sales transactions with a $416.1 million notional amount with four counterparties with concentrations and ratings (Standard & Poor's, Moody's Investors Service) as shown in note 10. At June 30, 2016, the Authority had outstanding 33 forward sales transactions with a $421.4 million notional amount with four counterparties with concentrations and ratings (Standard & Poor's, Moody's Investors Service). The 2017 forward sales contacts will settle by September 21, 2017. 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*.

(g) Mortgage Loans Held for Sale

The Authority is an authorized issuer of GNMA and FNMA Mortgage-Backed Securities (MBS). 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.

Mortgage loans originated or acquired with the intent to sell through the MBS programs are carried at the lower of cost or fair value. The fair values of the loans are based on observable market prices for similar instruments traded on the secondary mortgage loan markets. The Authority's portfolio of mortgage loans held for sale is classified as Level 2 in the fair value hierarchy. Any gains or losses on loan sales are reported on the Statements of Revenues, Expenses, and Changes in Net Position.

(h) Mortgage and Other Loans Receivable

Mortgage and other loans receivable are stated at their unpaid principal balance, net of 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 are recognized as income in the year in which such loans are repaid.

(i) Allowance for Loan Losses

The Authority provides for losses when a specific need for an allowance is identified. The provision for loan losses charged or credited to operating expense is the amount necessary, in management's judgment, to maintain the allowance at a level it believes sufficient to cover losses in collection of its mortgage 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 allowance for loan losses was reduced by $23,785,647 and $15,733,817 for the years ended June 30, 2017 and 2016, respectively.

		Year ended June 30	
		2017	**2016**
Beginning Balance, July 1	$	178,122,040	193,855,857
Provision:			
Homeownership		(4,048,902)	(15,675,810)
Rental housing		(11,897,693)	11,549,172
Provision		(15,946,595)	(4,126,638)
Net (charge-offs)/recovery			
Homeownership		(8,117,946)	(11,399,974)
Rental housing		278,894	(207,205)
Net charge-offs		(7,839,052)	(11,607,179)
Net change		(23,785,647)	(15,733,817)
Ending Balance, June 30	$	154,336,393	178,122,040

(j) Mortgage Servicing Rights

The Authority pays mortgage servicing release premiums when purchasing homeownership mortgage loans from participating lenders. These premiums are capitalized at cost and amortized over the estimated life of the related mortgage loans when those mortgage loans are securitized through either GNMA or FNMA and the Authority remains the servicer of the loans.

(k) Other Real Estate Owned

Other real estate owned represents current investments in homeownership dwellings and rental housing developments, acquired primarily through foreclosure, and is stated at the lower of cost or fair value less estimated disposal costs. On a nonrecurring basis, fair values of the real properties are assessed by comparing them to similar properties. The Authority’s portfolio of real estate owned is classified as a Level 2 in the fair value hierarchy. 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.

(l) 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.

(Continued)

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.

(m) Bond Issuance Expense

In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* bond issuance costs are expensed in the period incurred.

(n) Notes and Bonds Payable

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

(o) Retirement Plans

The Authority has three defined contribution 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 administered through a trust 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. The trust assets are not reflected in the Authority's financial statements.

(p) Compensated Absences

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

(q) Related Party Transactions

The Authority provides split dollar life insurance as a form of compensation to retain talented key associates.

(r) Pass-Through Revenues and Expenses

(i) 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 $68,182,644 and $65,242,961 during the years ended June 30, 2017 and 2016, respectively.

Excess HAP or administrative funds disbursed to the Authority were also recorded as revenue and unrestricted net position in the Statements of Revenues, Expenses and Changes in Net Position and Statements of Net Position. Cumulative deficits of HAP funds totaled $158,185 and $171,202 as of June 30, 2017 and 2016, respectively. Cumulative excess administrative funds totaled $536,715 and $622,868 as of June 30, 2017 and 2016, respectively. 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 for the program.

(ii) 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 $47,757,647 and $49,106,632 during the years ended June 30, 2017 and 2016, respectively. The Authority also received and disbursed Section 236 Interest Reduction Payments from HUD totaling $923,463 and $2,055,631 during the years ended June 30, 2017 and 2016, respectively.

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

The Authority serves as an administrator for 36 HUD-approved Housing Counseling Agencies in the Commonwealth. 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 $1,078,418 and $865,555 during the years ended June 30, 2017 and 2016, respectively.

(s) Commonwealth Priority Housing Fund & Housing Trust Fund

The Commonwealth Priority Housing Fund (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 Virginia Department of Housing and Community Development (DHCD) develops the program guidelines and the Authority acts as administrator for the Fund. The balances associated with the Fund are recorded in assets and liabilities in the amounts of $6,676,053 and $7,873,354 as of June 30, 2017 and 2016, respectively.

The Housing Trust Fund (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. DHCD develops the program guidelines and the Authority acts as administrator for the Trust Fund. The balances associated with the Trust Fund are recorded in assets and liabilities in the amounts of $6,536,114 and $4,030,344 as of June 30, 2017 and 2016, respectively.

(t) Cash Equivalents

Cash equivalents consist of highly liquid short term instruments with original maturities of three months or less from the date of purchase and are recorded at amortized cost.

(u) Rebatable Arbitrage

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

(v) 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.

(w) 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.

(x) Reclassifications

Certain reclassifications have been made in the June 30, 2016 financial statements to conform to the June 30, 2017 presentation.

(Continued)

(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 Group

The proceeds of the Rental Housing Bonds are used to finance construction and permanent mortgage loans on multi-family housing developments, as well as, temporary financing for other multi-family owned real estate and the financing of the Authority's office facilities.

(c) Commonwealth Mortgage Bond Group

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

(d) Homeownership Mortgage Bond Group

The Homeownership Mortgage Bond group was established to encompass the Authority's participation in the U.S. Department of the Treasury's New Issue Bond Program, which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. The proceeds of Homeownership Mortgage Bonds are used to purchase or make long-term mortgage loans to owner occupants of homeownership 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, 2017 and 2016 were as follows:

	June 30 2017	June 30 2016
Restricted current assets:		
Cash and cash equivalents	$ 890,103,472	1,024,267,548
Interest receivable – investments	576,348	525,302
Mortgage loans held for sale	195,208,735	174,398,370
Mortgage and other loans receivable	151,643,029	171,226,583
Interest receivable – mortgage and other loans	24,754,035	28,470,018
Housing Choice Voucher contributions receivable	9,681	109,032
Other real estate owned	23,453,644	23,433,596
Other assets	—	1,535,427
Total restricted current assets	1,285,748,944	1,423,965,876
Restricted noncurrent assets:		
Investments	544,766,590	504,898,305
Mortgage and other loans receivable	5,719,720,809	6,127,447,409
Less allowance for loan loss	114,713,749	151,018,087
Less net loan unamortized discounts	37,229,271	37,347,675
Mortgage and other loans receivable, net	5,567,777,789	5,939,081,647
Property, furniture, and equipment, less accumulated depreciation and amortization of $18,568,481 and $17,911,095 respectively	11,102,467	11,799,096
Total restricted noncurrent assets	6,123,646,846	6,455,779,048
Total restricted assets	$ 7,409,395,790	7,879,744,924

(4) Mortgage and Other Loans Receivable

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

Loan program/bond group	Interest rates	Initial loan terms
General Operating Accounts	0% to 8.30%	Thirty to forty years
Rental Housing Bond Group	0% to 13.11%	Thirty to forty years
Commonwealth Mortgage Bond Group	0% to 10.61%	Thirty years
Homeownership Mortgage Bond Group	2.00% to 5.88%	Thirty years

Commitments to fund new loans were as follows at June 30, 2017:

		Committed
General Operating Loan Programs	$	1,886,354
Rental Housing Bond Group		274,731,502
Commonwealth Mortgage Bond Group		318,576,359
Total	$	595,194,215

(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, 2017 and 2016, the carrying amount of the Authority’s deposits was $55,638,042 and $64,807,340, respectively. The associated bank balance of the Authority’s deposits was $47,531,151 and $45,219,355 at June 30, 2017 and 2016, 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, 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, 2017 and 2016, total cash equivalents were $838,634,739 and $962,754,464, respectively.

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 monies 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 subdivisions, bonds, debentures, certificates of deposit, repurchase agreements, swap contracts, futures contracts, and forward contracts. No more than 3.0% of the Authority’s total assets may be invested in any one entity, excluding repurchase agreement transactions, 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 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 generally 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 market rates of interest will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates. As a means of communicating interest rate risk, the Authority has elected the segmented time distribution method of disclosure, which requires the grouping of investment cash flows into sequential time periods in tabular form.

As of June 30, 2017, the Authority had the following investments (including cash equivalents) and maturities:

Investment type		Less than 1 year	1–5 years	6–10 years	Over 10 years	Total
U.S. government and agency	$	84,843,304	—	—	—	84,843,304
Repurchase agreements		475,000,000	—	—	—	475,000,000
Asset-backed securities		—	—	—	3,835,276	3,835,276
Agency-mortgage backed securities		—	—	845,922	543,920,668	544,766,590
Money market securities		259,328,107	—	—	—	259,328,107
Other interest-bearing securities		19,463,328	—	—	—	19,463,328
Total investments	$	838,634,739	—	845,922	547,755,944	1,387,236,605

As of June 30, 2016, the Authority had the following investments (including cash equivalents) and maturities:

Investment type		Less than 1 year	1–5 years	6–10 years	Over 10 years	Fair value
Repurchase agreements	$	500,000,000	—	—	—	500,000,000
Municipal securities		8,146,745	2,692,326	—	—	10,839,071
Asset-backed securities		—	—	—	7,473,311	7,473,311
Agency-mortgage backed securities		—	—	1,107,480	498,580,493	499,687,973
Money market securities		403,379,196	—	—	—	403,379,196
Agency discount notes		49,971,605	—	—	—	49,971,605
Other interest-bearing securities		3,776,606	—	—	—	3,776,606
Total investments	$	965,274,152	2,692,326	1,107,480	506,053,804	1,475,127,762

(Continued)

On February 13, 2017, the Authority extended a pledge and security agreement with FNMA that requires the Authority to post collateral to secure its repurchase obligations with respect to the HFA Preferred Risk Sharing mortgage loans during the recourse period. The amount of required collateral is $27,000,000 through December 31, 2017, compared to $4.1 million required collateral a year ago. To comply with the collateral requirement, the Authority elected to pledge agency-mortgage backed securities valued at $32.7 million and held in trust by a custodian agent for FNMA.

(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 (including cash equivalents) exposure to credit risk by investment type as of June 30, 2017:

Investment type		Amount	S & P/ Moody's rating	Percentage of total investments
Agency-Mortgage Backed Securities	$	544,766,590	Aaa	39.26 %
Repurchase Agreements		475,000,000	BBB-	34.24
Money Market Securities		255,209,496	P-1	18.40
US Government & Agency		84,843,304	Aaa	6.12
Other Interest-Bearing Instruments		19,463,328	Aaa	1.40
Money Market Securities		4,000,000	NR	0.29
Asset-Backed Securities		2,050,979	Ca	0.15
Asset-Backed Securities		716,640	Caa2	0.05
Asset-Backed Securities		458,769	A3	0.03
Asset-Backed Securities		369,324	Caa3	0.03
Asset-Backed Securities		239,564	Baa3	0.02
Money Market Securities		118,611	Aaa-mf	0.01
Total investments	$	1,387,236,605		100.00 %

The following table presents investment (including cash equivalents) exposure to credit risk by investment type as of June 30, 2016:

Investment type	Amount	S & P/ Moody's rating	Percentage of total investments
Agency-mortgage backed securities	$ 499,687,973	Aaa	33.87 %
Money market securities	403,379,196	P-1	27.35
Repurchase agreements	300,000,000	BBB-	20.34
Repurchase agreements	200,000,000	Baa2	13.56
Agency discount notes	49,971,605	Aaa	3.39
Municipal securities	5,050,000	NR	0.34
Other interest bearing instruments	3,776,606	Aaa	0.26
Asset-backed securities	2,746,756	Baa3	0.19
Municipal securities	2,207,934	Aaa	0.15
Asset-backed securities	2,042,664	Ca	0.14
Municipal securities	1,796,282	Aa2	0.12
Municipal securities	963,739	Aa1	0.06
Asset-backed securities	880,894	Caa2	0.06
Municipal securities	821,116	Aa3	0.05
Asset-backed securities	810,700	B1	0.05
Asset-backed securities	558,752	A3	0.04
Asset-backed securities	433,545	Caa3	0.03
Total investments	$ 1,475,127,762		100.00 %

(c) Fair Value Hierarchy

As of June 30, 2017, the Authority had the following investments (excluding cash equivalents) measured at fair value on a recurring basis using the following fair value hierarchy categories:

		Fair value measurement using		
Investment type	**June 30, 2017**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Agency-mortgage backed securities	$ 544,766,590	—	544,766,590	—
Asset-backed securities	3,835,276	—	3,835,276	—
Total investments	$ 548,601,866	—	548,601,866	—

As of June 30, 2016, the Authority had the following investments (excluding cash equivalents) measured using the following fair value hierarchy categories:

		Fair value measurement using		
Investment type	**June 30, 2016**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Agency-mortgage backed securities	$ 499,687,973	—	499,687,973	—
Asset-backed securities	7,473,311	—	7,473,311	—
Municipal securities	5,212,014	—	5,212,014	—
Total investments	$ 512,373,298	—	512,373,298	—

(6) Property, Furniture, and Equipment

Activity in the property, furniture, and equipment accounts for the year ended June 30, 2017 was as follows:

	Balance June 30, 2016	Additions	Disposals	Transfers/ reclassification	Balance June 30, 2017
Land	$ 2,935,815	—	—	—	2,935,815
Building	33,502,873	68,987	—	4,508,878	38,080,738
Furniture and equipment	25,255,417	730,650	(5,949,188)	(3,022,460)	17,014,419
Motor vehicles	624,681	40,788	—	—	665,469
Construction in progress	595,058	1,425,726	—	(1,486,418)	534,366
	$ 62,913,844	2,266,151	(5,949,188)	—	59,230,807

Activity in the related accumulated depreciation and amortization accounts during the year ended June 30, 2017 was as follows:

	Balance June 30, 2016	Additions	Disposals	Transfers	Balance June 30 2017
Building	$ (18,470,717)	(1,105,425)	—	(607,347)	(20,183,489)
Furniture and equipment	(18,615,645)	(2,334,276)	5,949,282	607,347	(14,393,292)
Motor vehicles	(451,581)	(67,458)	—	—	(519,039)
	$ (37,537,943)	(3,507,159)	5,949,282	—	(35,095,820)

Activity in the property, furniture, and equipment accounts for the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions	Disposals	Transfers	Balance June 30, 2016
Land	$ 2,935,815	—	—	—	2,935,815
Building	31,118,900	—	—	2,383,973	33,502,873
Furniture and equipment	20,352,302	373,474	(104,428)	4,634,069	25,255,417
Motor vehicles	590,331	127,772	(93,422)	—	624,681
Construction in progress	5,686,755	1,926,345	—	(7,018,042)	595,058
	$ 60,684,103	2,427,591	(197,850)	—	62,913,844

Activity in the related accumulated depreciation and amortization accounts during the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions	Disposals	Transfers	Balance June 30, 2016
Building	$ (17,532,095)	(1,162,531)	—	223,909	(18,470,717)
Furniture and equipment	(16,342,198)	(2,153,965)	104,428	(223,909)	(18,615,644)
Motor vehicles	(483,085)	(55,774)	87,276	—	(451,583)
	$ (34,357,378)	(3,372,270)	191,704	—	(37,537,944)

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2016 and June 30, 2017 and changes for the year ended June 30, 2017 were as follows:

Description	Balance at June 30, 2016	Issued	Retired	Balance at June 30, 2017
		(Amounts shown in thousands)		
General operating accounts:				
Revolving line of credit:				
Bank of America floating daily rate of 1.926% at June 30, 2017 and 1.1603% at June 30, 2016), termination date of December 1, 2017	$ 37,000	74,000	95,000	16,000
Federal Home Loan Bank varying fixed rate notes with 90-day maturities (average rate of 1.05% at June 30, 2017 and 0.51% at June 30, 2016), maturities range from July 13, 2017 to September 15, 2017	407,600	37,700	—	445,300
Total general operating accounts	$ 444,600	111,700	95,000	461,300
Rental housing bond group:				
2007 Series A, dated June 12, 2007, 6.03% effective interest rate, final due date July 1, 2039	$ 108,520	—	108,520	—
2007 Series B/C, dated September 20, 2007, 6.16% effective interest rate, final due date November 1, 2038	20,745	—	20,745	—
2009 Series A, dated February 26, 2009, 6.80% effective interest rate, final due date March 1, 2039	65,890	—	1,375	64,515
2009 Series B, dated March 26, 2009, 5.54% effective interest rate, final due date June 1, 2043	26,500	—	475	26,025

Description	Balance at June 30, 2016	Issued	Retired	Balance at June 30, 2017
		(Amounts shown in thousands)		
2009 Series C/D, dated March 30, 2009, 5.81% effective interest rate, final due date February 1, 2021	$ 183,795	—	34,655	149,140
2009 Series E, dated September 24, 2009, 4.74% effective interest rate, final due date October 1, 2044	46,330	—	845	45,485
2009 Series F, dated November 25, 2009, 4.87% effective interest rate, final due date December 1, 2044	45,090	—	815	44,275
2010 Series A, dated March 23, 2010, 4.79% effective interest rate, final due date April 1, 2045	19,425	—	245	19,180
2010 Series B, dated April 27, 2010, 4.74% effective interest rate, final due date June 1, 2045	21,015	—	390	20,625
2010 Series C, dated July 28, 2010, 4.61% effective interest rate, final due date August 1, 2045	11,045	—	200	10,845
2010 Series D, dated August 26, 2010, 4.31% effective interest rate, final due date September 1, 2040	30,075	—	760	29,315
2010 Series E, dated October 7, 2010, 4.19% effective interest rate, final due date October 1, 2045	35,535	—	745	34,790
2010 Series F, dated December 2, 2010, 4.86% effective interest rate, final due date January 1, 2041	18,290	—	425	17,865
2011 Series A, dated May 24, 2011, 4.92% effective interest rate, final due date May 1, 2041	10,755	—	250	10,505
2011 Series B, dated September 27, 2011, 4.27% effective interest rate, final due date October 1, 2041	14,120	—	345	13,775
2011 Series C, dated December 8, 2011, 4.24% effective interest rate, final due date December 1, 2038	18,145	—	535	17,610
2011 Series D, dated December 8, 2011, 4.93% effective interest rate, final due date January 1, 2039	143,190	—	3,840	139,350
2011 Series E, dated December 22, 2011, 4.40% effective interest rate, final due date March 1 2028	125,125	—	125,125	—
2012 Series A, dated February 28, 2012, 3.60% effective interest rate, final due date March 1, 2042	32,885	—	870	32,015

Description	Balance at June 30, 2016	Issued	Retired	Balance at June 30, 2017
		(Amounts shown in thousands)		
2012 Series B/C, dated August 21, 2012, 3.64% effective interest rate, final due date August 1, 2042	$ 109,235	—	2,680	106,555
2012 Series D, dated October 30, 2012, 4.02% effective interest rate, final due date October 1, 2042	211,705	—	5,170	206,535
2012 Series E, dated November 2, 2042, 3.16% effective interest rate, final due date November 1, 2042	10,235	—	265	9,970
2013 Series A/B, dated April 11, 2013, 3.95% effective interest rate, final due date April 1, 2043	32,825	—	845	31,980
2013 Series C, dated May 2, 2013, 3.82% effective interest rate, final due date February 1, 2043	155,845	—	3,760	152,085
2013 Series D, dated May 30, 2013, 4.06% effective interest rate, final due date June 1, 2043	107,000	—	2,295	104,705
2013 Series E, dated July 11, 2013, 4.15% effective interest rate, final due date July 1, 2043	20,500	—	500	20,000
2013 Series F, dated October 10, 2013, 4.98% effective interest rate, final due date October 1, 2043	57,935	—	1,190	56,745
2013 Series G, dated December 3, 2013, 4.39% effective interest rate, final due date December 1, 2043	10,300	—	220	10,080
2014 Series A, dated August 19, 2014, 3.75% effective interest rate, final due date August 1, 2049	12,625	—	105	12,520
2014 Series B, dated October 28, 2014, 3.30% effective interest rate, final due date October 1, 2044	8,900	—	105	8,795
2014 Series C, dated November 20, 2014, 4.29% effective interest rate, final due date November 1, 2044	132,765	—	2,965	129,800
2015 Series A, dated March 18, 2015, 3.50% effective interest rate, final due date March 1, 2045	42,165	—	3,505	38,660
2015 Series B, dated May 12, 2015, 3.44% effective interest rate, final due date May 1, 2045	13,300	—	1,750	11,550
2015 Series C, dated August 5, 2015, 3.68% effective interest rate, final due date August 1, 2045	22,625	—	—	22,625

Description	Balance at June 30, 2016	Issued	Retired	Balance at June 30, 2017
		(Amounts shown in thousands)		
2015 Series D, dated November 10, 2015, 3.46% effective interest rate, final due date November 1, 2045	$ 40,635	—	250	40,385
2015 Series E/F, dated December 8, 2015, 3.94% effective interest rate, final due date December 1, 2045	82,385	—	—	82,385
2016 Series A, dated March 8, 2016, 2.99% effective interest rate, final due date March 1, 2046	4,800	—	—	4,800
2016 Series B, dated May 17, 2016, 3.18% effective interest rate, final due date May 1, 2046	83,765	—	—	83,765
2016 Series C, dated July 19, 2016, 2.67% effective interest rate, final due date July 1, 2046	—	5,000	—	5,000
2016 Series D, dated October 18, 2016, 2.60% effective interest rate, final due date October 1, 2046	—	13,575	—	13,575
2017 Series A, dated March 14, 2017, 3.66% effective interest rate, final due date March 1, 2049	—	28,160	—	28,160
2017 Series B, dated June 13, 2017, 2.84% effective interest rate, final due date June 1, 2047	—	14,170	—	14,170
	2,136,020	60,905	326,765	1,870,160
Unamortized premium	1,859			1,281
Total rental housing bond group	$ 2,137,879			1,871,441
Commonwealth mortgage bond group:				
2002 Series B, dated March 20, 2002, 6.24% effective interest rate, final due date August 25, 2030	$ 10,411	—	10,411	—
2002 Series E/F/G, dated December 17, 2002, 5.21% effective interest rate, final due date December 25, 2032	9,122	—	1,013	8,109
2004 Series B, dated June 10, 2004, 5.71% effective interest rate, final due date June 25, 2034	2,298	—	353	1,945
2006 Series A/B, dated April 27, 2006, 5.91% effective interest rate, final due date March 25, 2036	3,720	—	285	3,435
2006 Series C, dated June 8, 2006, 6.22% effective interest rate, final due date June 25, 2034	14,001	—	1,880	12,121

Description	Balance at June 30, 2016	Issued	Retired	Balance at June 30, 2017
		(Amounts shown in thousands)		
2007 Series A/B/C/D, dated May 18, 2007, 4.92% effective interest rate, final due date October 1, 2035	$ 387,525	—	225,765	161,760
2008 Series A, dated March 25, 2008, 6.08% effective interest rate, final due date March 25, 2038	27,010	—	4,752	22,258
2008 Series B, dated April 10, 2008, 6.13% effective interest rate, final due date March 25, 2038	42,042	—	8,445	33,597
2008 Series C, dated November 18, 2008, 6.44% effective interest rate, final due date June 25, 2038	16,721	—	3,441	13,280
2009 Series A, dated November 25, 2009, 4.06% effective interest rate, final due date July 1, 2024	25,285	—	25,285	—
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, 3.65% effective interest rate, final due date July 1, 2039	686,510	—	55,690	630,820
2013 Series B, dated May 21, 2013, 2.75% effective interest rate, final due date April 25, 2042	63,499	—	12,093	51,406
2013 Series C, dated October 24, 2013, 4.25% effective interest rate, final due date October 25, 2043	89,089	—	6,913	82,176
2013 Series D, dated December 19, 2013, 4.30% effective interest rate, final due date December 25, 2043	68,054	—	6,218	61,836
2014 Series A, dated December 11, 2014, 3.50% effective interest rate, final due date October 25, 2037	97,317	—	12,925	84,392
2015 Series A, dated November 10, 2015, 3.25% effective interest rate, final due date June 25, 2045	132,179	—	17,672	114,507
2016 Series A, dated June 9, 2016, 3.10% effective interest rate, final due date June 25, 2041	150,111	—	22,252	127,859
2017 Series A, dated June 13, 2017, 3.125% effective interest rate, final due date November 25, 2039	—	150,083	—	150,083
	1,899,384	150,083	415,393	1,634,074
Unamortized premium	(1,953)			(1,460)
Total commonwealth mortgage bond group	$ 1,897,431			1,632,614

(Continued)

Description	Balance at June 30, 2016	Issued	Retired	Balance at June 30, 2017
		(Amounts shown in thousands)		
Homeownership mortgage bond group:				
2010 Series A, dated February 10, 2010, 3.98% effective interest rate, final due date September 1, 2021	$ 43,630	—	15,200	28,430
2010 Series B, dated October 29, 2010, 3.10% effective interest rate, final due date March 1, 2022	36,200	—	6,500	29,700
2011 Series A, dated June 14, 2011, 3.58% effective interest rate, final due date March 1, 2024	32,300	—	5,700	26,600
2011 Series B, dated September 27, 2011, 3.41% effective interest rate, final due date September 1, 2024	43,650	—	5,800	37,850
2013 Series A, dated March 27, 2013 3.25% effective interest rate, final due date August 25, 2042	129,845	—	19,001	110,844
Total homeownership mortgage bonds group	285,625	—	52,201	233,424
Total	$ 4,765,535			4,198,779

Notes and bonds payable at June 30, 2015 and June 30, 2016 and changes for the year ended June 30, 2016 were summarized as follows (amounts in thousands):

	June 30, 2015	Issued	Retired	Increase/ (decrease) in unamortized premium/ discount and compound interest payable	June 30, 2016
General operating accounts	$ 464,600	26,000	(46,000)	—	444,600
Rental housing bond group	2,113,565	234,210	(209,440)	(456)	2,137,879
Commonwealth mortgage bond group	2,043,400	291,040	(437,395)	386	1,897,431
Homeownership mortgage bond group	341,882	—	(56,257)	—	285,625
Total	$ 4,963,447	551,250	(749,092)	(70)	4,765,535

Current and noncurrent amounts of notes and bonds payable at June 30, 2017 and 2016 were as follows:

	June 30	
	2017	**2016**
Notes and bonds payable – current	$ 768,564,253	901,502,903
Bonds payable – noncurrent	3,430,214,929	3,864,032,415
Total	$ 4,198,779,182	4,765,535,318

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, 2017 and 2016. The Authority had redemptions of $507,641,113 and $431,665,000 during the years ended June 30, 2017 and 2016, respectively.

The principal payment obligations and associated interest related to all note and bond indebtedness (excluding the effect of unamortized discounts and premium) commencing July 1, 2017 and thereafter are as follows:

Year ending June 30	Original principal	Current interest	Total debt service
2018	$ 768,564,253	143,982,883	912,547,136
2019	133,925,000	133,264,585	267,189,585
2020	159,290,000	128,530,914	287,820,914
2021	138,305,000	123,129,303	261,434,303
2022	91,355,000	118,770,456	210,125,456
2023–2027	437,575,000	549,704,277	987,279,277
2028–2032	469,355,000	466,647,157	936,002,157
2033–2037	545,610,265	360,171,197	905,781,462
2038–2042	951,658,903	214,942,484	1,166,601,387
2043–2047	498,545,331	26,817,895	525,363,226
2048–2052	4,775,000	289,260	5,064,260
Total	$ 4,198,958,752	2,266,250,411	6,465,209,163

The principal payment obligations related to all note and bond indebtedness (excluding the effect of unamortized discounts and premium) commencing July 1, 2017 and thereafter are as follows:

Year ending June 30		General fund notes	Rental housing bonds	Commonwealth mortgage bonds	Homeownership mortgage bonds	Total principal
2018	$	461,300,000	73,435,000	210,906,261	22,922,992	768,564,253
2019		—	85,525,000	33,300,000	15,100,000	133,925,000
2020		—	103,290,000	33,800,000	22,200,000	159,290,000
2021		—	83,305,000	32,900,000	22,100,000	138,305,000
2022		—	44,625,000	32,200,000	14,530,000	91,355,000
2023–2027		—	245,430,000	163,795,000	28,350,000	437,575,000
2028–2032		—	298,080,000	171,275,000	—	469,355,000
2033–2037		—	367,560,000	178,050,265	—	545,610,265
2038–2042		—	396,450,000	555,208,903	—	951,658,903
2043–2047		—	167,685,000	222,639,193	108,221,138	498,545,331
2048–2052		—	4,775,000	—	—	4,775,000
Total	$	461,300,000	1,870,160,000	1,634,074,622	233,424,130	4,198,958,752

The associated interest related to all note and bond indebtedness commencing July 1, 2017 and thereafter are as follows:

Year ending June 30		General fund interest	Rental housing interest	Commonwealth interest	Homeownership interest	Total interest
2018	$	4,983,810	77,645,619	53,655,524	7,697,930	143,982,883
2019		—	74,522,374	51,684,981	7,057,230	133,264,585
2020		—	70,868,830	51,115,055	6,547,029	128,530,914
2021		—	66,884,026	50,442,809	5,802,468	123,129,303
2022		—	64,056,908	49,700,146	5,013,402	118,770,456
2023–2027		—	295,956,670	234,647,272	19,100,335	549,704,277
2028–2032		—	242,989,738	206,071,484	17,585,935	466,647,157
2033–2037		—	171,659,291	170,925,971	17,585,935	360,171,197
2038–2042		—	82,938,045	114,418,503	17,585,936	214,942,484
2043–2047		—	13,057,936	12,939,282	820,677	26,817,895
2048–2052		—	289,260	—	—	289,260
Total	$	4,983,810	1,160,868,697	995,601,027	104,796,877	2,266,250,411

The Authority entered into a $100 million revolving credit agreement on December 1, 2015 with the Bank of America to provide funds for general corporate purposes specifying a scheduled expiration date after one year, which may be extended from time to time but in no event later than December 1, 2025. The revolving credit agreement was amended on October 18, 2016 to specify the next scheduled expiration date as December 1, 2017. Under the terms of this agreement, 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 70 to 105 basis points per annum based upon the Authority's long-term credit ratings. As of June 30, 2017 and 2016, the borrowing rate was 1.9261% and 1.1603%, respectively. The Authority is in compliance with all debt covenant requirements. At June 30, 2017 and 2016, there were $16.0 million and $37.0 million outstanding, respectively.

The Authority maintains a $1.3 billion credit agreement with the Federal Home Loan Bank (FHLB) of Atlanta, whereby FHLB of Atlanta may advance funds that are secured by cash, mortgage loans and government agency securities held in FHLB of Atlanta as collateral. As of June 30, 2017, there was $461.4 million in mortgage backed securities pledged to FHLB Atlanta. As of June 30, 2016, there was $6.0 million in cash and $433.4 million in mortgage backed securities pledged to FHLB 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 one year for daily rate or twenty years for fixed rate loans. As of June 30, 2017 there were ten 90 day fixed rate borrowings: four for a total of $187.0 million at 0.98%, two for a total of $96.6 million at 1.00%, one for $28.0 million at 1.01%, one for $9.7 million at 1.05%, and two for a total of $124.0 million at 1.19%. The Authority is in compliance with all debt covenant requirements. At June 30, 2017 and 2016, there were $445.3 million and $407.6 million outstanding, respectively.

(8) Loan Participation Payable to Federal Financing Bank

On March 23, 2015, the Authority was designated as a “qualified Housing Finance Agency” under the Risk-Sharing Act and entered into a Risk-Sharing Agreement with HUD. In conjunction with the Risk-Sharing Agreement, the Authority elected to participate in a program offered by the Federal Financing Bank (FFB) for the financing of rental housing mortgage loans. The FFB is a government corporation, under the general supervision and direction of the Secretary of the Treasury, created by Congress with statutory authority to purchase any obligation that is fully guaranteed by another federal agency. To the extent that FFB proceeds are utilized to finance certain mortgage loans, such mortgage loans would not be available to be financed under the Rental Housing Bond Group other than on a temporary basis prior to such FFB financing. As of February 2016, the Authority had executed the necessary agreements to allow the Authority to participate in such FFB financing.

Under the program established by the Risk-Sharing Act (the Risk-Sharing Program), the Authority retains underwriting, mortgage loan management and property disposition functions and responsibility for defaulted loans. Following default under a mortgage loan subject to a HUD contract of mortgage insurance under the Risk-Sharing Program, HUD agrees to make an initial claim payment of 100% of the loan’s unpaid principal balance and accrued interest, subject to certain adjustments that passes through the Authority to FFB. After a period during which the Authority may work toward curing the default, foreclosing the mortgage, or reselling the related project, any losses are calculated and apportioned between the Authority and HUD according to a specified risk-sharing percentage determined at the time of its endorsement for insurance. At its election, the Authority may choose a risk percentage ranging from 50% to 90%, which in turn determines its reimbursement obligation to HUD. During the intervening period prior to the final loss settlement, the Authority is obligated to pay interest on the amount of the initial claim payment under a debenture required to be issued to HUD at the time of the initial claim payment.

For each rental housing mortgage loan to be financed by the FFB, the Authority will sell to the FFB a certificate representing a participation interest in the rental housing mortgage loan consisting of all principal payments due thereon and all interest payments due thereon, whereby the rate to FFB will be less than the mortgage loan interest rate. The participation proceeds from the FFB are recorded as a debt obligation payable to the FFB.

Under these agreements, the Authority will retain responsibility for originating, closing and servicing the rental housing mortgage loans underlying the certificates sold to the FFB. As servicer, the Authority will remit the balance of each mortgage payment to U.S. Bank, N.A. (Custodian). The Custodian will fund any required account and pay the amounts due to the FFB, deduct their fees, then remit any amount remaining to the Authority as servicing fees.

Under the terms of the agreements in the Risk-Sharing Program, the Authority has sold certificates representing the beneficial interest in the following mortgage loans to FFB:

Description		Balance at June 30, 2016	Issued	Retired	Balance at June 30, 2017
Participation certificates outstanding:					
Colonnade at Rocktown – Note rate of 4.68% risk-share percentage (10% HUD/90% VHDA) pass-through rate of 3.45% maturity date of May 1, 2047	$	—	3,008,000	3,833	3,004,167
Wilsondale II – Note rate of 4.47% risk-share percentage (10% HUD/90% VHDA) pass-through rate of 3.12% maturity date of July 1, 2047		—	7,800,000	—	7,800,000
Total participation certificates payable	$	—	10,808,000	3,833	10,804,167

(9) Escrows and Project Reserves

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

At June 30, 2017 and 2016, these escrows and project reserves were presented in the Authority's Statements of Net Position as follows:

	June 30	
	2017	**2016**
Escrows – current	$ 33,695,294	35,264,259
Project reserves – noncurrent	113,864,723	118,787,264
Total	$ 147,560,017	154,051,523

The Authority also holds escrow funds and unremitted payments for third party investors, including GNMA and FNMA which are required to be held in trust accounts for the investors. These funds are not assets of the Authority and therefore are not included in the Statements of Net Position. At June 30, 2017 and 2016, there were $41.5 million and $30.2 million in these trust accounts, respectively.

(10) 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 homeownership 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. Fair values of the forwards are based on observable market prices for similar instruments traded on the secondary mortgage loan markets. The Authority's portfolio of investment derivatives are classified as Level 2 in the fair value hierarchy.

The outstanding forward contracts, summarized by counterparty rating as of June 30, 2017 were as follows:

Counterparty rating	Count	Par	Concentration	Notional amount	Market value	Fair value asset (liability)
A-1+/AA+	29	$ 166,000,000	40.7 %	$ 168,982,266	168,544,766	437,500
A-1/A+	19	124,500,000	30.6	127,382,109	126,988,281	393,828
A-1+/AA-	10	102,000,000	25.0	104,631,758	104,182,500	449,258
Baa2/BBB	3	15,000,000	3.7	15,096,680	15,102,344	(5,664)
	61	$ 407,500,000	100.0 %	$ 416,092,813	414,817,891	1,274,922

The outstanding forward contracts, summarized by counterparty as of June 30, 2016, were as follows:

Counterparty rating	Count	Par	Concentration	Notional amount	Market value	Fair value asset (liability)
A-1/AA+	11	$ 166,000,000	40.3 %	$ 169,521,836	171,443,437	(1,921,601)
A-1/AA-	13	140,000,000	34.0	143,191,836	144,922,188	(1,730,352)
A-1/A	8	97,000,000	23.5	99,554,141	100,820,312	(1,266,171)
Baa2/BBB	1	9,000,000	2.2	9,177,539	9,348,750	(171,211)
	33	$ 412,000,000	100.0 %	$ 421,445,352	426,534,687	(5,089,335)

(11) 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, and Rental Housing Bond Group, is limited by certain federal legislation. Earnings in excess of the allowable amount must be rebated to the U.S. Department of the Treasury. These excess earnings are recorded in accounts payable and other liabilities. No rebates were paid for the year ended June 30, 2017 and 2016. No remaining liability existed as of June 30, 2017 and 2016.

(12) 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. At the bond resolution level, assets can be released from restriction by bond indentures at any time, subject to the revenue test that requires the assets and future income stream generated by those restricted assets be greater than the funds needed to cover 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, 2017 and 2016, 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 rental housing conventional loan program; and any unanticipated losses in connection with the uninsured portions of the balance of the homeownership and rental housing 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; homeownership loan prepayment shortfalls; and other risks and contingencies.

(13) Employee Benefits Plans

The Authority incurs employment retirement savings expenses under two defined contribution plans equal to between 8% and 11% of full-time employees' compensation. Total retirement savings expense for the year ended June 30, 2017 and 2016 was $3,389,362 and $3,315,748, respectively.

The Authority sponsors a deferred compensation plan available to all employees created in accordance with Internal Revenue Section 457(b). 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, 2017 and 2016, included in other liabilities is an employee compensated absences accrual of $4,703,575 and $4,489,963, respectively, (note 15).

(14) 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 Plan), a single-employer defined benefit plan. The Authority administers the RHC Plan through the Virginia Housing Development Authority Retiree Health Care Plan Trust (RHC Trust), an irrevocable trust to be used solely for providing benefits to eligible participants in the RHC Plan. 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 Plan. 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. The RHC Plan does not issue stand-alone financial reports.

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 Plan 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 is under age 65 or not to exceed 75% of 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, 2017, there were approximately 103 participating retirees and spouses and 336 active employees earning service credits in the RHC Plan.

Under the RHC Plan, the plan members are not required to contribute to the plan. The RHC Plan is fully funded by the Authority as a benefit to the eligible participants. Each year, the Authority 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, 2017 of $428,524 is approximately 1.40% of covered payroll.

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

Fiscal year-end	Beginning net OPEB obligation (asset)	ARC	Interest on OPEB liability	ARC adjustment	Amortization factor	Annual OPEB cost
June 30, 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	439,044
June 30, 2014	(1,237,131)	310,203	(77,321)	60,600	21.04	293,482
June 30, 2015	(2,128,613)	260,642	(133,038)	104,267	21.04	231,871
June 30, 2016	(3,081,704)	447,787	(192,607)	150,952	30.00	406,132
June 30, 2017	(3,950,080)	428,524	(246,880)	193,488	30.00	375,132

The OPEB cost to the Authority and its contributions and changes in the RHC plan for fiscal years 2010 through 2017 are as follows:

Fiscal year-end	Beginning net OPEB obligation (asset)	Annual OPEB cost	Contribution	Change in net OPEB obligation (asset)	Net OPEB obligation (asset) balance
June 30, 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)
June 30, 2015	(2,128,613)	231,871	(1,184,962)	(953,091)	(3,081,704)
June 30, 2016	(3,081,704)	406,132	(1,274,508)	(868,376)	(3,950,080)
June 30, 2017	(3,950,080)	375,132	(1,497,710)	(1,122,578)	(5,072,658)

For the year ended June 30, 2017, the Authority's Annual OPEB cost was $375,132; the percentage of Annual OPEB Cost Contribution was 399.2%; and the ending Net OPEB asset was $5,072,658. For the year ended June 30, 2016, the Authority's Annual OPEB cost was $406,132; the percentage of Annual OPEB Cost Contribution was 313.8%; and the ending Net OPEB asset was $3,950,080.

As of December 31, 2016, the unfunded actuarial accrued liability (UAAL) for benefits was $4,698,333. The covered payroll (annual payroll of active employees covered by the RHC Plan) was $30,687,904 and the ratio of the UAAL to the covered payroll was 15.3%. As of December 31, 2016, the actuarial value of net assets held by the RHC Trust was $27,724,121, the actuarial accrued liability was $23,025,788, and the funded ratio was 120.4%.

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.

(Continued)

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions:

Cost method	Entry age – cost method was used
Asset valuation method	Market value
Inflation	3.0%
Investment rate of return	6.25%, net of OPEB plan investment expenses
Salary increases	3.5%, per annum
Healthcare cost trend rates	8.0% to grade uniformly to 5.0% over a 12 year period, assumption is that the Retiree Credit Matrix will increase at 5% per annum.
Amortization period	30 years (open)

The valuation also reflects the impact of the Cadillac tax that will go into effect in 2020. This excise tax has been valued at 40% of the difference between trending claims cost and the excise tax cost threshold and assumes an annual increase of 3.0% in 2020 and thereafter. 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 2016-17 fiscal year annual required contribution.

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.

(15) Other Long-Term Liabilities

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the year ended June 30, 2017 was as follows:

	Balance at June 30, 2016	Additions	Decreases	Balance at June 30, 2017
Project reserves	$ 118,787,264	37,126,862	42,049,403	113,864,723
Commonwealth Priority Housing Fund liability	7,020,204	109,201	608,025	6,521,380
Virginia Housing Trust Fund liability	2,784,193	3,420,097	199,113	6,005,177
Other liabilities	5,437,630	7,194,288	7,301,375	5,330,543
Compensated absences payable	4,489,963	2,356,173	2,142,561	4,703,575
Total	$ 138,519,254	50,206,621	52,300,477	136,425,398

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the year ended June 30, 2016 was as follows:

	Balance at June 30, 2015	Additions	Decreases	Balance at June 30, 2016
Project reserves	$ 123,338,279	32,832,127	37,383,142	118,787,264
Commonwealth Priority Housing Fund liability	7,039,949	57,709	77,454	7,020,204
Virginia Housing Trust Fund liability	824,932	2,123,270	164,009	2,784,193
Other liabilities	6,116,882	6,501,978	7,181,230	5,437,630
Compensated absences payable	4,438,451	2,017,995	1,966,483	4,489,963
Total	$ 141,758,493	43,533,079	46,772,318	138,519,254

(16) 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, 2017 and 2016, the Authority has granted the following concessions to debtors, which are considered troubled debt restructurings. There are no commitments to lend additional resources to debtors who had a troubled debt restructuring.

	Year ended June 30,	
Single family loans	**2017**	**2016**
Aggregated recorded balance	$ 75,654,423	51,641,833
Number of loans	576	382
Gross interest revenue if loans had been current	3,195,701	2,665,002
Interest revenue included in changes in net position	2,650,115	2,067,688

	Year ended June 30,	
Multi-family loans	**2017**	**2016**
Aggregated recorded balance	$ 2,426,876	2,452,001
Number of loans	3	3
Gross interest revenue if loans had been current	144,549	147,837
Interest revenue included in changes in net position	64,312	65,405

(17) 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 Uniform Guidance, 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.

(18) Subsequent Events

In addition to scheduled issuances and redemptions, the Authority made redemptions of notes and bonds payable subsequent to June 30, 2017 as follows:

	Redemption date	Amount
Redemptions:		
Commonwealth Mortgage Bonds 2007 A-1	July 1, 2017	$ 62,605,000
Commonwealth Mortgage Bonds 2007 A-2	July 1, 2017	40,745,000
Commonwealth Mortgage Bonds 2007 A-3	July 1, 2017	19,050,000
Commonwealth Mortgage Bonds 2007 A-4	July 1, 2017	26,625,000
Commonwealth Mortgage Bonds 2007 A-5	July 1, 2017	5,170,000

Schedule 1

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

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

June 30, 2017 and 2016

(Unaudited)

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)
December 31, 2014	23,266,870	19,304,555	(3,962,315)	120.5	27,131,030	(14.6)
December 31, 2015	24,178,782	21,741,535	(2,437,247)	111.2	28,623,175	(8.5)
December 31, 2016	27,724,121	23,025,788	(4,698,333)	120.4	30,687,904	(15.3)

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

As of December 31, 2016, the funded actuarial asset (funded asset) for benefits was $4,698,333. The covered payroll (annual payroll of active employees covered by the RHC Plan) was $30,687,904 and the ratio of the funded asset to the covered payroll was 15.3%. As of December 31, 2016, the actuarial value of net assets held by the RHC Trust was $27,724,121, the actuarial accrued liability was $23,025,788, and the funded ratio was 120.4%. As of June 30, 2017, the RHC Trust had $27,383,631 in net assets. As of June 30, 2016, the RHC Trust had $24,868,467 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, 2016 actuarial assumptions include a 6.25% long term investment rate of return per annum and a 3.5% payroll growth rate. The projected healthcare cost trend is 8.0% initially, reduced by decrements to an ultimate rate of 5.0% after 5 years. The funded asset is being amortized as a level percentage of projected payroll on a closed basis. The funded asset was amortized over 30 years in calculating the fiscal year 2017 ARC.

Schedule 2

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

Combining Schedule of Net Position

June 30, 2017

Assets		General Operating Accounts	Rental Housing Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Current assets:						
Cash and cash equivalents	$	201,305,919	305,143,443	372,906,720	14,916,699	894,272,781
Interest receivable – investments		1,659,358	220,651	333,807	10,898	2,224,714
Derivative instruments		—	—	1,274,922	—	1,274,922
Mortgage loans held for sale		—	—	195,208,735	—	195,208,735
Mortgage and other loans receivable		5,046,143	62,225,665	79,513,599	9,903,765	156,689,172
Interest receivable – mortgage and other loans		436,332	15,089,485	8,752,960	868,669	25,147,446
Housing Choice Voucher contributions receivable		9,681	—	—	—	9,681
Other real estate owned		3,378,154	10,334,419	11,890,272	1,424,755	27,027,600
Other assets		7,892,326	79,483	—	—	7,971,809
Total current assets		219,727,913	393,093,146	669,881,015	27,124,786	1,309,826,860
Noncurrent assets:						
Investments		509,703,165	—	38,898,701	—	548,601,866
Mortgage and other loans receivable		164,517,113	3,007,080,653	2,406,317,708	279,976,157	5,857,891,631
Less allowance for loan loss		39,622,644	43,075,351	67,903,807	3,734,591	154,336,393
Less net loan discounts/(premiums)		195,389	38,025,719	(1,197,824)	371,395	37,394,679
Mortgage and other loans receivable, net		124,699,080	2,925,979,583	2,339,611,725	275,870,171	5,666,160,559
Property, furniture, and equipment, less accumulated depreciation and amortization of $35,095,820		13,032,520	11,102,467	—	—	24,134,987
Mortgage servicing rights, net		25,426,265	—	—	—	25,426,265
Other assets		18,290,333	—	—	—	18,290,333
Total noncurrent assets		691,151,363	2,937,082,050	2,378,510,426	275,870,171	6,282,614,010
Total assets	$	910,879,276	3,330,175,196	3,048,391,441	302,994,957	7,592,440,870

(Continued)

Schedule 2

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

Combining Schedule of Net Position

June 30, 2017

Liabilities and Net Position		**General Operating Accounts**	**Rental Housing Bond Group**	**Commonwealth Mortgage Bond Group**	**Home-ownership Bond Group**	**Total**
Current liabilities:						
Notes and bonds payable	$	461,300,000	73,435,000	210,906,261	22,922,992	768,564,253
Accrued interest payable on notes and bonds		184,491	21,637,795	13,055,855	1,717,413	36,595,554
Escrows		33,695,294	—	—	—	33,695,294
Accounts payable and other liabilities		24,760,699	47,452	66,720	—	24,874,871
Total current liabilities		519,940,484	95,120,247	224,028,836	24,640,405	863,729,972
Noncurrent liabilities:						
Bonds payable, net		—	1,798,005,706	1,421,708,085	210,501,138	3,430,214,929
Project reserves		113,864,723	—	—	—	113,864,723
Loan participation payable to Federal Financing Bank		10,804,167	—	—	—	10,804,167
Other liabilities		1,411,489	21,149,186	—	—	22,560,675
Total noncurrent liabilities		126,080,379	1,819,154,892	1,421,708,085	210,501,138	3,577,444,494
Total liabilities		646,020,863	1,914,275,139	1,645,736,921	235,141,543	4,441,174,466
Net position:						
Net investment in capital assets		13,032,520	466,043	—	—	13,498,563
Restricted by bond indentures		—	1,415,434,014	1,402,654,520	67,853,414	2,885,941,948
Unrestricted		251,825,893	—	—	—	251,825,893
Total net position		264,858,413	1,415,900,057	1,402,654,520	67,853,414	3,151,266,404
Total liabilities and net position	$	910,879,276	3,330,175,196	3,048,391,441	302,994,957	7,592,440,870

See accompanying independent auditors' report.

Schedule 3

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

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

Year ended June 30, 2017

	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	$ 5,878,288	193,169,318	121,243,592	13,514,598	333,805,796
Pass-through grant awards	117,946,339	—	—	—	117,946,339
Housing Choice Voucher program administrative income	6,798,165	—	—	—	6,798,165
Other real estate owned income	—	3,938,973	—	—	3,938,973
Gains and recoveries on sale of other real estate owned	235,744	5,193,945	1,624,416	53,727	7,107,832
Gains on sale of single family mortgage loans	—	—	24,588,598	—	24,588,598
Mortgage servicing fees net of guaranty fees	20,751,322	—	—	—	20,751,322
Other	5,307,900	2,591,587	2,231	—	7,901,718
Total operating revenues	156,917,758	204,893,823	147,458,837	13,568,325	522,838,743
Operating expenses:					
Interest on notes and bonds payable	3,680,632	81,927,682	59,043,183	8,552,347	153,203,844
Salaries and related employee benefits	46,460,248	—	—	—	46,460,248
General operating expenses	49,152,020	—	—	—	49,152,020
Note and bond expenses	268,549	492,157	182,766	—	943,472
Bond issuance expenses	208,101	567,100	777,358	—	1,552,559
Pass-through grants expenses	117,946,339	—	—	—	117,946,339
Housing Choice Voucher program expenses	6,871,301	—	—	—	6,871,301
Servicing release premiums and other servicing costs	8,285,377	—	2,409,371	—	10,694,748
Other real estate owned expenses	—	2,656,861	—	—	2,656,861
Losses and expenses on other real estate owned	(428,245)	4,562,637	3,305,153	110,625	7,550,170
Provision for loan losses	12,064,734	(12,737,801)	(14,575,810)	(697,718)	(15,946,595)
Total operating expenses	244,509,056	77,468,636	51,142,021	7,965,254	381,084,967
Operating income (expense)	(87,591,298)	127,425,187	96,316,816	5,603,071	141,753,776
Nonoperating revenues (expenses):					
Investment income (loss)	10,159,695	1,852,221	(1,061,643)	80,647	11,030,920
Unrealized gain on derivative instruments	—	—	6,364,257	—	6,364,257
Other, net	174,180	—	—	—	174,180
Total nonoperating revenues, net	10,333,875	1,852,221	5,302,614	80,647	17,569,357
Income (loss) before transfers	(77,257,423)	129,277,408	101,619,430	5,683,718	159,323,133
Transfers between funds	177,035,430	(76,918,582)	(100,295,797)	178,949	—
Change in net position	99,778,007	52,358,826	1,323,633	5,862,667	159,323,133
Total net position, beginning of year	165,080,406	1,363,541,231	1,401,330,887	61,990,747	2,991,943,271
Total net position, end of year	$ 264,858,413	1,415,900,057	1,402,654,520	67,853,414	3,151,266,404

See accompanying independent auditors' report.

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

Combining Schedule of Net Position

June 30, 2016

Assets	General Operating Accounts	Rental Housing Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Current assets:					
Cash and cash equivalents	$ 200,378,029	451,154,850	358,151,227	17,877,698	1,027,561,804
Investments	2,519,688	—	—	—	2,519,688
Interest receivable – investments	1,493,863	184,556	328,694	6,085	2,013,198
Mortgage loans held for sale	—	—	174,398,370	—	174,398,370
Mortgage and other loans receivable	4,116,073	76,618,886	83,872,740	10,734,957	175,342,656
Interest receivable – mortgage and other loans	346,823	17,139,914	10,288,894	1,014,203	28,789,834
Housing Choice Voucher contributions receivable	109,032	—	—	—	109,032
Other real estate owned	1,354,410	12,355,501	10,126,141	951,954	24,788,006
Other assets	10,508,513	76,179	1,403,086	—	11,987,778
Total current assets	220,826,431	557,529,886	638,569,152	30,584,897	1,447,510,366
Noncurrent assets:					
Investments	448,451,159	—	61,402,451	—	509,853,610
Mortgage and other loans receivable	127,955,948	3,077,337,684	2,712,763,764	324,295,486	6,242,352,882
Less allowance for loan loss	27,103,953	56,053,336	90,194,989	4,769,762	178,122,040
Less net loan discounts/(premiums)	192,980	37,143,673	(208,737)	412,740	37,540,656
Mortgage and other loans receivable, net	100,659,015	2,984,140,675	2,622,777,512	319,112,984	6,026,690,186
Investment in rental property, net	—	—	—	—	—
Property, furniture, and equipment, less accumulated depreciation and amortization of $37,537,944	13,576,804	11,799,096	—	—	25,375,900
Mortgage servicing rights, net	9,488,770	—	—	—	9,488,770
Other assets	6,014,176	—	—	—	6,014,176
Total noncurrent assets	578,189,924	2,995,939,771	2,684,179,963	319,112,984	6,577,422,642
Total assets	$ 799,016,355	3,553,469,657	3,322,749,115	349,697,881	8,024,933,008

(Continued)

Schedule 4

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

Combining Schedule of Net Position

June 30, 2016

Liabilities and Net Position	General Operating Accounts	Rental Housing Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Current liabilities:					
Notes and bonds payable	$ 444,600,000	188,130,000	237,782,587	30,990,316	901,502,903
Accrued interest payable on notes and bonds	74,660	27,224,624	18,896,687	2,081,949	48,277,920
Escrows	35,264,259	—	—	—	35,264,259
Derivative instruments	—	—	5,089,335	—	5,089,335
Accounts payable and other liabilities	40,256,650	46,140	861	—	40,303,651
Total current liabilities	520,195,569	215,400,764	261,769,470	33,072,265	1,030,438,068
Noncurrent liabilities:					
Bonds payable, net	—	1,949,748,788	1,659,648,758	254,634,869	3,864,032,415
Project reserves	118,787,264	—	—	—	118,787,264
Other (assets) liabilities	(5,046,884)	24,778,874	—	—	19,731,990
Total noncurrent liabilities	113,740,380	1,974,527,662	1,659,648,758	254,634,869	4,002,551,669
Total liabilities	633,935,949	2,189,928,426	1,921,418,228	287,707,134	5,032,989,737
Net position:					
Net investment in capital assets	13,459,779	896,420	—	—	14,356,199
Restricted by bond indentures	—	1,362,644,811	1,401,330,887	61,990,747	2,825,966,445
Unrestricted	151,620,627	—	—	—	151,620,627
Total net position	165,080,406	1,363,541,231	1,401,330,887	61,990,747	2,991,943,271
Total liabilities and net position	$ 799,016,355	3,553,469,657	3,322,749,115	349,697,881	8,024,933,008

See accompanying independent auditors' report.

Schedule 5

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

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

Year ended June 30, 2016

	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	$ 4,797,994	204,314,597	146,654,347	15,445,692	371,212,630
Pass-through grant awards	117,399,381	—	—	—	117,399,381
Housing Choice Voucher program administrative income	6,189,835	—	—	—	6,189,835
Other real estate owned income	—	7,003,999	—	—	7,003,999
Gains and recoveries on sale of other real estate	278,897	9,903,503	1,867,178	111,505	12,161,083
Gains on sale of single family mortgage loans	1,165,264	—	15,189,277	—	16,354,541
Mortgage servicing fees net of guaranty fees	13,509,023	—	—	—	13,509,023
Other	6,176,092	3,670,877	469,043	—	10,316,012
Total operating revenues	149,516,486	224,892,976	164,179,845	15,557,197	554,146,504
Operating expenses:					
Interest on notes and bonds	2,436,451	92,554,743	73,567,721	9,949,369	178,508,284
Salaries and related employee benefits	44,042,059	—	—	—	44,042,059
General operating expenses	40,614,966	—	—	—	40,614,966
Note and bond expenses	335,075	453,693	169,547	—	958,315
Bond issuance expenses	201,500	1,978,720	1,520,784	—	3,701,004
Pass-through grants expenses	117,399,381	—	—	—	117,399,381
Housing Choice Voucher program expenses	6,099,153	—	—	—	6,099,153
Servicing release premiums and other servicing costs	3,769,851	—	3,296,685	—	7,066,536
Other real estate owned expenses	—	4,732,727	—	—	4,732,727
Losses and expenses on other real estate owned	309,967	(32,322)	3,062,075	141,011	3,480,731
Provision for loan losses	917,917	12,996,366	(16,455,959)	(1,584,962)	(4,126,638)
Total operating expenses	216,126,320	112,683,927	65,160,853	8,505,418	402,476,518
Operating income (expense)	(66,609,834)	112,209,049	99,018,992	7,051,779	151,669,986
Nonoperating revenues (expenses):					
Investment income	19,416,651	1,076,032	4,130,739	28,510	24,651,932
Unrealized loss on derivative instruments	—	—	(4,864,386)	—	(4,864,386)
Other, net	200,653	—	—	—	200,653
Total nonoperating revenues, net	19,617,304	1,076,032	(733,647)	28,510	19,988,199
Income (loss) before transfers	(46,992,530)	113,285,081	98,285,345	7,080,289	171,658,185
Transfers between funds	68,942,323	(9,252,881)	(63,462,355)	3,772,913	—
Change in net position	21,949,793	104,032,200	34,822,990	10,853,202	171,658,185
Total net position, beginning of year	143,130,613	1,259,509,031	1,366,507,897	51,137,545	2,820,285,086
Total net position, end of year	$ 165,080,406	1,363,541,231	1,401,330,887	61,990,747	2,991,943,271

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 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, 2017, 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 financial statements, and have issued our report thereon dated September 14, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the 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 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 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

Richmond, Virginia
September 14, 2017