

**VERMONT HOUSING FINANCE AGENCY**  
(A Component Unit of the State of Vermont)

Financial Statements and  
Required Supplementary Information

June 30, 2011

(With Independent Auditors' Report Thereon)

**VERMONT HOUSING FINANCE AGENCY**  
(A Component Unit of the State of Vermont)

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## INDEPENDENT AUDITORS' REPORT

The Honorable Thomas M. Salmon  
State Auditor of the State of Vermont  
and  
The Commissioners  
Vermont Housing Finance Agency

We have audited the accompanying financial statements of the business-type activities and each major fund of the Vermont Housing Finance Agency (the Agency), a component unit of the State of Vermont, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Agency, as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Reznick Group, P.C.*

Baltimore, Maryland  
September 30, 2011

**VERMONT HOUSING FINANCE AGENCY**  
(A Component Unit of the State of Vermont)

Management's Discussion and Analysis

June 30, 2011

This section of the Vermont Housing Finance Agency's (the Agency) annual Financial Report presents management's discussion and analysis of its financial performance and significant changes in financial position for the fiscal year ended June 30, 2011. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole.

**Overview of the Agency**

The Agency was created in 1974 by an Act of the General Assembly of the State of Vermont. The purpose of the Agency is to promote the expansion of the supply of funds available for mortgages on residential housing and to encourage an adequate supply of safe and decent housing at reasonable costs. The Agency is authorized to issue bonds and other obligations to fulfill its corporate purposes. Obligations of the Agency do not constitute debt of the State of Vermont and are payable solely from the revenues or assets of the Agency.

The majority of the Agency's funding has been provided from the proceeds of sales of tax-exempt and taxable bonds and notes, and advances from lending institutions. Since September 1974, the Agency has issued \$3 billion aggregate principal amount of bonds, notes and line of credit borrowings, of which \$700.5 million was outstanding as of June 30, 2011, to finance its various programs. The proceeds of the debt have been or will be used to make mortgage loans to sponsors of multi-family residential housing units for persons and families of low and moderate income in the State, to purchase mortgage backed securities (MBS) or mortgage loans on single family residential housing units for persons and families of low and moderate income in the State, and to make loans to finance multi-family housing developments. The bonds are secured pursuant to the terms of the resolutions under which they were issued.

**Overview of the Financial Statements**

The Agency's financial statements consist of three parts – Management's Discussion and Analysis, the basic financial statements and the notes to the financial statements. The basic financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. The notes to the basic financial statements are intended to provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**Summary of Net Assets**

The Agency's Statement of Net Assets consists primarily of single family and multi-family mortgage loans, mortgage backed securities, cash and investments, and related bonds and notes payable. It also includes a portfolio of mortgage and construction loans financed through its Operating Fund, as well as a variety of other assets such as property and equipment, other receivables, and deferred charges.

Cash and investments are used to fund loan and MBS purchases, bond debt service, and reserve funds, and are typically held in guaranteed investment contracts or other investment vehicles, as authorized in accordance with the Agency's investment policy.

The following table summarizes the net assets of the Agency as of June 30, 2011 with comparative data from the prior fiscal year.

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Management's Discussion and Analysis

June 30, 2011

	<u>2011</u>	<u>2010</u>	<u>Percentage change 2011 – 2010</u>
<b>Assets:</b>			
Cash and investments	\$ 205,917,558	230,493,037	(10.7)%
Loans receivable, net	500,197,528	579,130,499	(13.6)
Mortgage backed securities	70,877,082	49,560,221	43.0
Other assets	31,346,297	33,614,412	(6.7)
Total assets	<u>808,338,465</u>	<u>892,798,169</u>	<u>(9.5)</u>
<b>Liabilities:</b>			
Bonds and notes payable	700,534,931	783,853,074	(10.6)
Other liabilities	22,530,790	24,006,756	(6.1)
Total liabilities	<u>723,065,721</u>	<u>807,859,830</u>	<u>(10.5)</u>
<b>Net assets:</b>			
Invested in capital assets	1,564,897	1,614,858	(3.1)
<b>Restricted:</b>			
Bond and other requirements	73,064,490	67,976,013	7.5
Excess yield loans	8,072,137	8,102,137	(0.4)
Unrestricted	2,571,220	7,245,331	(64.5)
Total net assets	<u>\$ 85,272,744</u>	<u>84,938,339</u>	<u>0.4%</u>

Total assets decreased by \$84.5 million or 9.5% for fiscal year ended June 30, 2011 when compared to the year ended June 30, 2010. The change in assets is primarily the result of:

- Overall cash and investments decreased by \$24.6 million, or 10.7 %, from June 30, 2010 primarily from the issuance of \$30 million of the proceeds of the New Issue Bond Program because escrow bonds were converted to Mortgage Backed Securities.
- Mortgage loans receivable decreased a net of \$78.9 million or 13.6% due mainly to the collection of outstanding mortgages. Because almost all single family mortgages are now being securitized as mortgage backed securities, as mortgages pay down they will not be backfilled with new loans. However, the balance in mortgage backed securities will increase. Total loan originations in the twelve months were \$70.4 million including \$29.4 million of loans originated using MBS or the Fannie Mae cash window. Loans totaling \$8.0 million were originated under the IRS Section 1602 Tax Credit Exchange and the HUD Tax Credit Assistance programs.
- Loans originated using federal funds (Section 1602 and TCAP) are pass-through in nature and will not be realized by the Agency and, as such, are fully reserved at year-end. The addition of these reserves accounts for the net increase in the loan loss provision for the year.

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June 30, 2011

The following table summarizes the change in mortgage loans receivable for the year ended June 30, 2011, with comparative data from the prior fiscal year:

	<b>Fiscal year ended June</b>		<b>Percentage</b>
	<b>2011</b>	<b>2010</b>	<b>Change</b>
			<b>2011-2010</b>
Mortgage loans receivable:			
Beginning balance	\$ 579,130,499	681,004,431	(15.0)%
Whole loan originations	33,016,204	20,846,947	58.37
IRS Section 1602 program originations	3,536,283	9,306,000	(62.0)
HUD TCAP program originations	4,490,310	846,236	430.62
Cash window loan sales	142,333	1,491,358	(90.5)
Principal collections	(107,452,686)	(77,454,369)	38.73
Loans converted to MBS	—	(41,225,500)	(100.0)
Loans transferred to REO status	(3,703,575)	(3,679,957)	0.64
Loan loss provision	(792,914)	(361,053)	119.61
Loan loss provision – 1602/TCAP	(8,026,593)	(10,152,236)	(20.9)
Less cash window sales	(142,333)	(1,491,358)	(90.5)
Ending mortgage loans receivable balance	\$ <u>500,197,528</u>	<u>579,130,499</u>	<u>(13.6)%</u>

The following table summarizes the change in mortgage backed securities for the fiscal year ended June 30, 2011:

	<b>Fiscal year</b>
	<b>ended</b>
	<b>June 30, 2011</b>
Mortgage backed securities (MBS):	
Beginning balance	\$ 49,560,221
Loans converted to MBS	—
MBS purchased	29,227,726
Principal paydowns	(8,177,465)
Unamortized discount points	(94,936)
Amortization on MBS	5,204
Appreciation in fair value	356,332
Ending MBS balance	\$ <u>70,877,082</u>

Total liabilities of the Agency decreased by \$84.8 million, or 10.5% for the fiscal year ended June 30, 2011 when compared to the year ended June 30, 2010, primarily as a net result of:

- The change in bonds payable was a net decrease of \$78.8 million, which reflects \$12 million of new issue bonds and \$75.4 million of redemptions and \$15.4 million of schedules maturities.

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- For fiscal year 2010 the Agency was required to implement GASB 53, Accounting and Financial Reporting for Derivative Instruments. In accordance with the provisions of GASB 53 the Agency has recorded \$13 million in offsetting assets and liabilities; noncurrent deferred inflow of resources, and noncurrent change in fair value of derivative instrument interest rate swaps, respectively. These balances are reported under other assets, and other liabilities, and account for the increases in both of these balance sheet categories in fiscal year 2011.

**Discussion of changes in Statement of Revenues, Expenses and Changes in Net Assets**

The Agency's operating revenues consist primarily of interest income on mortgage and construction loans, investment income, and miscellaneous fee income. Operating expenses consist of bond interest expense and other debt financing costs, operational expenses, and mortgage servicing fees.

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June 30, 2011

The following summarizes the changes for the fiscal year ended June 30, 2011 with comparative data from the prior fiscal year:

	<u>Fiscal year ended June 30,</u> <u>2011</u>	<u>2010</u>	<u>Percentage</u> <u>change</u> <u>2011 – 2010</u>
Operating revenues:			
Interest on loans	\$ 31,968,003	36,178,804	(11.6)%
Interest on mortgage backed securities	2,915,256	2,289,389	27.3
Interest on investments	4,084,592	4,288,008	(4.7)
Fee income	1,152,554	1,121,336	2.8
Gain on bond redemptions	136,132	130,944	4.0
Other revenue	119,139	77,594	53.5
Total operating revenues	<u>40,375,676</u>	<u>44,086,075</u>	<u>(8.4)</u>
Operating expenses:			
Financing costs	33,321,502	37,635,656	(11.5)
Operational expenses	4,237,684	4,155,311	2.0
Mortgage servicing	794,966	928,043	(14.3)
Loan loss provision	1,869,598	767,865	143.5
Total operating expenses	<u>40,223,750</u>	<u>43,486,875</u>	<u>(7.5)</u>
Operating income (loss)	<u>151,926</u>	<u>599,200</u>	<u>(74.6)</u>
Nonoperating revenues:			
Net appreciation (depreciation) in fair value of investments	182,479	3,518,628	(94.8)
Federal programs:			
Federal grant revenue	14,627,233	15,305,110	(4.4)
Federal grant expense	(14,383,895)	(15,025,510)	(4.3)
Administration and period costs	(243,338)	(279,600)	(13.0)
Excess (deficiency) of revenues over expenses	334,405	4,117,828	(91.9)
Net assets – beginning of year	<u>84,938,339</u>	<u>80,820,511</u>	<u>5.1</u>
Net assets – end of year	<u>\$ 85,272,744</u>	<u>84,938,339</u>	<u>0.4%</u>

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The Agency's net operating income was \$151,926 for the fiscal year ended June 30, 2011, compared to a net operating income of \$599,200 for the fiscal year ended June 30, 2010. When net nonoperating revenues are included the overall excess of revenues over expenses for the fiscal year ended June 30, 2011 was \$334,405 compared with a net excess of revenues over expenses in the previous fiscal year of \$4.1 million (due mainly to the difference in net appreciation in fair value of investments).

Income and expense highlights include:

- Interest income on loans and mortgage backed securities decreased by \$3.6 million (9.3%) reflecting the effect of net portfolio runoff and the reduced spread on the whole loans converted to MBS.
- Interest income on investments decreased by \$203.4 thousand (4.7%) due to a reduction in the investment portfolio balance and lower reinvestment rates.
- Financing costs decreased \$4.3 million (11.5%) relative to the same period prior year due to the net reduction in outstanding bonds and notes payable of \$83.3 million and the reduction of rates paid on variable rate debt.
- Operational expenses had a modest increase of less than 2% compared to the prior year. The overall increase is primarily the result of an increase in salary and benefits costs of \$142 thousand, due mainly to filling some vacant positions. Operational expenses continue to be down considerably from fiscal year 2009 because of a deliberate effort to reduce costs.

### **Budgetary Information**

The Agency prepares an annual budget of income, expenses, and fund transfers for its Operating Fund. The operating budget is prepared by staff, and reviewed and approved prior to the start of the fiscal year by the Agency's Board of Commissioners.

The Agency relies on fund transfers from bond programs and Operating Fund cash-on-hand to bridge the gap between annual operating expenses and operating income.

For fiscal year 2011, the Agency budgeted \$1.64 million in operating revenues and \$5.01 million in operating expenses. Actual operating revenues of \$2 million and expenses of \$4.73 million resulted in positive budget variances of \$360 thousand and \$280 thousand respectively. Net fund transfers for the period was \$478 thousand.

Federal grant revenues and expenses related to the Agency's participation in programs under the American Recovery and Reinvestment Act of 2009 (ARRA) and the Federal Housing and Economic Recovery Act of 2008 (HERA) are reported in the Operating Fund, but are not part the Agency's operating budget.

### **Contacting the Agency's Financial Management**

This financial report is designed to provide a general overview of the Agency's operations, and insight into the financial statements. If you have questions about this report or need additional information, please contact the Chief Financial Officer at VHFA, 164 St. Paul St., Burlington, VT 05401 or visit our website at [www.vhfa.org](http://www.vhfa.org).

**VERMONT HOUSING FINANCE AGENCY**  
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Statement of Net Assets

June 30, 2011

Assets	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Bond Fund	Multi-Family Mortgage Program Fund	Total
Cash and cash equivalents	\$ 1,842,551	—	—	—	1,842,551
Investments	100,000	—	—	—	100,000
Accrued interest receivable:					
Mortgage and notes	1,152,225	1,592,369	506,669	311,313	3,562,576
Investments	680	511,140	4,907	302,046	818,773
Mortgage backed securities	—	204,353	64,946	—	269,299
Current portion of mortgage loans receivable	302,328	6,618,633	2,978,750	3,048,389	12,948,100
Current portion of mortgage backed securities	—	1,123,634	295,052	—	1,418,686
Current costs of bond issuance expense	—	77,423	37,608	43,822	158,853
Current portion of deferred mortgage originating fees, net	—	233,778	37,592	—	271,370
Current receivables and prepaid expenses	1,649,083	1,009,961	340,075	64,874	3,063,993
Interfund receivables (payables)	456,309	494,099	19,607	(970,015)	—
Total current assets	<u>5,503,176</u>	<u>11,865,390</u>	<u>4,285,206</u>	<u>2,800,429</u>	<u>24,454,201</u>
Noncurrent assets:					
Restricted cash and cash equivalents	2,467,704	120,872,845	10,552,136	43,557,565	177,450,250
Restricted investments	—	21,459,213	—	5,065,544	26,524,757
Noncurrent portion of mortgage loans receivable, net	13,840,057	268,102,939	110,705,372	94,601,060	487,249,428
Noncurrent portion of mortgage backed securities	—	52,690,535	16,767,861	—	69,458,396
Deferred costs of bond issuance, net	—	2,143,721	512,900	913,183	3,569,804
Deferred mortgage origination fees, net	—	180,566	116,223	—	296,789
Noncurrent receivables and prepaid expenses	(3,528)	881,330	830,277	38,342	1,746,421
Land	775,000	—	—	—	775,000
Building (less accumulated depreciation of \$412,844)	587,990	—	—	—	587,990
Office furniture and fixtures (less accumulated depreciation of \$1,688,756)	201,907	—	—	—	201,907
Noncurrent deferred inflow of resources related to interest rate swaps	—	8,124,386	4,026,267	837,619	12,988,272
Other assets and real estate owned	—	2,519,835	515,415	—	3,035,250
Total noncurrent assets	<u>17,869,130</u>	<u>476,975,370</u>	<u>144,026,451</u>	<u>145,013,313</u>	<u>783,884,264</u>
Total assets	<u>\$ 23,372,306</u>	<u>488,840,760</u>	<u>148,311,657</u>	<u>147,813,742</u>	<u>808,338,465</u>
<b>Liabilities and Net Assets</b>					
Liabilities:					
Current liabilities:					
Current notes payable and lines of credit	\$ 2,934,979	—	—	12,908,961	15,843,940
Current bonds payable	11,670	91,630,000	2,830,000	19,747,271	114,218,941
Accrued interest payable	44,202	2,903,543	994,623	1,798,910	5,741,278
Current unamortized bond and note premium (discount), net	—	(17,054)	(78,109)	(58,777)	(153,940)
Current deferred loan origination fees	9,398	—	—	—	9,398
Current deferred income	4,952	—	—	—	4,952
Accounts payable	494,339	927,792	130,839	57,542	1,610,512
Escrowed cash deposits	1,632,739	16,742	—	—	1,649,481
Arbitrage rebate payable	—	116,765	—	—	116,765
Total current liabilities	<u>5,132,279</u>	<u>95,577,788</u>	<u>3,877,353</u>	<u>34,453,907</u>	<u>139,041,327</u>
Noncurrent liabilities:					
Noncurrent notes payable and lines of credit	8,576,224	—	—	3,689,910	12,266,134
Noncurrent bonds payable	511,884	343,990,000	118,755,000	94,949,032	558,205,916
Fair value of derivative instrument – interest rate swaps	—	8,124,386	4,026,267	837,619	12,988,272
Unamortized bond and note premium (discount), net	—	(1,277,397)	(149,220)	(649,819)	(2,076,436)
Arbitrage rebate payable	—	24,619	—	67,791	92,410
Deferred program income	2,181,206	—	—	—	2,181,206
Noncurrent deferred mortgage loan origination fees	270,312	—	—	—	270,312
Noncurrent deferred income	96,580	—	—	—	96,580
Total noncurrent liabilities	<u>11,636,206</u>	<u>350,861,608</u>	<u>122,632,047</u>	<u>98,894,533</u>	<u>584,024,394</u>
Total liabilities	<u>16,768,485</u>	<u>446,439,396</u>	<u>126,509,400</u>	<u>133,348,440</u>	<u>723,065,721</u>
Net assets:					
Invested in capital assets	1,564,897	—	—	—	1,564,897
Restricted for:					
Bond resolutions	2,467,704	42,401,364	21,802,257	14,465,302	81,136,627
Unrestricted	2,571,220	—	—	—	2,571,220
Total net assets	<u>6,603,821</u>	<u>42,401,364</u>	<u>21,802,257</u>	<u>14,465,302</u>	<u>85,272,744</u>
Total liabilities and net assets	<u>\$ 23,372,306</u>	<u>488,840,760</u>	<u>148,311,657</u>	<u>147,813,742</u>	<u>808,338,465</u>

See accompanying notes to financial statements.

**VERMONT HOUSING FINANCE AGENCY**  
(A Component Unit of the State of Vermont)

Statement of Revenues, Expenses and Changes in Net Assets  
Year ended June 30, 2011

	<b>Operating Fund</b>	<b>Single Family Mortgage Program Fund</b>	<b>Multiple Purpose Bond Fund</b>	<b>Multi- Family Mortgage Program Fund</b>	<b>Total</b>
Operating revenues:					
Interest income:					
Mortgage and construction loans	\$ 797,187	17,703,730	7,248,822	6,218,264	31,968,003
Investments	2,712	3,296,597	70,634	714,649	4,084,592
Mortgage backed securities	73,095	1,995,876	846,285	—	2,915,256
Fee income:					
Multi-Family Mortgage Programs	985,944	—	148,982	—	1,134,926
Single Family Mortgage Programs	17,608	20	—	—	17,628
Gain (loss) on bond redemptions	—	13,627	122,505	—	136,132
Other revenue	119,139	—	—	—	119,139
Total operating revenues	<u>1,995,685</u>	<u>23,009,850</u>	<u>8,437,228</u>	<u>6,932,913</u>	<u>40,375,676</u>
Operating expenses:					
Financing costs, including interest and amortization of premium, discount and costs of issuance, net					
Mortgage service and contract administration fees	583,634	19,598,079	7,059,321	6,080,468	33,321,502
Salaries and benefits	—	591,949	184,621	18,396	794,966
Operating expenses	3,153,177	—	—	—	3,153,177
Professional fees	661,262	18,270	6,250	3,134	688,916
Trustee and assignee fees	123,003	59,441	18,585	5,000	206,029
Property disposition and loan loss reserves (recoveries)	186,162	3,400	—	—	189,562
Total operating expenses	<u>4,729,701</u>	<u>21,454,330</u>	<u>7,482,721</u>	<u>6,556,998</u>	<u>40,223,750</u>
Operating income (loss)	<u>(2,734,016)</u>	1,555,520	954,507	375,915	151,926
Nonoperating revenues (expenses):					
Net appreciation in fair value of investments	—	94,428	95,980	(7,929)	182,479
Federal programs:					
Federal grant revenue	14,627,233	—	—	—	14,627,233
Federal grant expenses	(14,383,895)	—	—	—	(14,383,895)
Administration and period costs	(243,338)	—	—	—	(243,338)
Income (loss) before transfers	<u>(2,734,016)</u>	1,649,948	1,050,487	367,986	334,405
Net transfers to (from) operating fund	477,648	34,405	—	(512,053)	—
Increase (decrease) in net assets	<u>(2,256,368)</u>	1,684,353	1,050,487	(144,067)	334,405
Net assets at beginning of year	8,860,189	40,717,011	20,751,770	14,609,369	84,938,339
Net assets at end of year	<u>\$ 6,603,821</u>	<u>42,401,364</u>	<u>21,802,257</u>	<u>14,465,302</u>	<u>85,272,744</u>

See accompanying notes to financial statements.

**VERMONT HOUSING FINANCE AGENCY**  
(A Component Unit of the State of Vermont)

Statement of Cash Flows

Year ended June 30, 2011

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Program Fund	Multi-Family Mortgage Program Fund	Total
Cash flows from operating activities:					
Interest collections on mortgages	\$ 811,299	18,133,835	7,315,038	6,316,644	32,576,816
Interest collections on mortgage backed securities	—	1,866,661	814,120	—	2,680,781
Principal collections on mortgages	5,454,465	50,971,434	19,972,121	31,080,745	107,478,765
Principal collections on mortgage backed securities	—	6,588,734	1,563,808	—	8,152,542
Federal grant revenues	8,026,593	—	—	—	8,026,593
Purchases of mortgages	(15,348,364)	(502,089)	(21,450)	(25,170,895)	(41,042,798)
Purchases of mortgage backed securities	—	(27,789,924)	(1,379,247)	—	(29,169,171)
Discount on purchases of mortgage backed securities	—	51,599	4,501	—	56,100
Fee income and other receipts	958,733	20	148,982	—	1,107,735
Salaries and benefits payments	(2,984,771)	—	—	—	(2,984,771)
Operating expense payments	(822,427)	(82,495)	(24,835)	(26,530)	(956,287)
Admin and period cost payments federal programs	(243,338)	—	—	—	(243,338)
Foreclosed property (gain) loss	22,463	100,971	(75,003)	—	48,431
Payment on prepaid origination fees	—	584	—	—	584
Service fee and other payments	—	(594,553)	(182,096)	—	(776,649)
Net cash provided by (used for) operating activities	(4,125,347)	48,744,777	28,135,939	12,199,964	84,955,333
Cash flows from investing activities:					
Proceeds from sales and maturities investments	—	444,145	—	—	444,145
Interest received on investments	3,788	1,983,189	74,202	767,582	2,828,761
Decrease (increase) in escrowed cash deposits	277,910	(2,481)	—	—	275,429
Cost of real estate owned	—	(636,077)	(125,905)	—	(761,982)
Proceeds from sales of real estate owned	—	2,613,736	655,094	—	3,268,830
Increase in deferred costs	—	(123,650)	—	—	(123,650)
New Bond deferred bond cost incurred	—	36,013	—	—	36,013
Payment to IRS to rebate excess earnings	—	19,352	—	—	19,352
Net cash provided by (used for) investing activities	281,698	4,334,227	603,391	767,582	5,986,898
Cash flows from noncapital financing activities:					
Net proceeds from issuance of bonds payable	—	12,000,000	—	—	12,000,000
Principal payments on bonds	(10,906)	(65,145,000)	(22,150,000)	(3,470,488)	(90,776,394)
Interest payments on bonds and notes payable	(567,168)	(18,446,408)	(6,786,390)	(5,932,865)	(31,732,831)
Proceeds from issuance of notes payable	2,649,011	—	—	18,934,167	21,583,178
Repayment of notes payable	(193,757)	—	—	(25,931,169)	(26,124,926)
Payments to bond insurers	—	(277,370)	(67,478)	(13,426)	(358,274)
Payments for cost of issuance	(39,985)	—	—	(3,273)	(43,258)
Transfers from (to) other funds	(225,201)	(23,099)	(102,228)	(1,055,171)	(1,405,699)
Net cash provided by (used for) noncapital financing activities	1,611,994	(71,891,877)	(29,106,096)	(17,472,225)	(116,858,204)
Cash flows from capital related financing activities:					
Federal grant receipts for NSP properties	6,607,262	—	—	—	6,607,262
Purchase of NSP properties held for sale	(6,357,302)	—	—	—	(6,357,302)
Proceeds from sales of NSP Properties	1,772,707	—	—	—	1,772,707
Purchase of office furniture and fixtures	(64,177)	—	—	—	(64,177)
Net cash provided by capital related financing activities	1,958,490	—	—	—	1,958,490
Net increase (decrease) in cash and cash equivalents	(273,165)	(18,812,873)	(366,766)	(4,504,679)	(23,957,483)
Cash and cash equivalents at beginning of year	4,583,420	139,685,718	10,918,902	48,062,244	203,250,284
Cash and cash equivalents at end of year	\$ 4,310,255	120,872,845	10,552,136	43,557,565	179,292,801

**VERMONT HOUSING FINANCE AGENCY**  
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Statement of Cash Flows

Year ended June 30, 2011

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Program Fund	Multi-Family Mortgage Program Fund	Total
Reconciliation of cash flows from operating activities:					
Operating income (loss)	\$ (2,734,016)	1,555,520	954,507	375,915	151,926
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	114,138	—	—	—	114,138
Amortization of (discounts) premiums on bonds and notes payable, net	—	40,012	53,626	—	93,638
Amortization of costs of bond issuance and other fees	—	95,609	38,597	59,322	193,528
Amortization of deferred income/fees	—	—	257,524	43,821	301,345
Amortization of discount on MBS purchase	—	(2,144)	(2,953)	—	(5,097)
Advances for cost of issuance	39,985	—	—	—	39,985
Loss (gain) on bond redemptions	—	(14,059)	(122,505)	—	(136,564)
Investment interest income	(2,712)	(3,296,165)	(70,634)	(714,649)	(4,084,160)
Bond and note interest expense	583,634	19,165,065	6,638,036	5,960,546	32,347,281
Bond insurance expense	—	296,009	71,538	16,669	384,216
Federal grants revenues	8,026,593	—	—	—	8,026,593
Federal grants admin & period costs	(243,338)	—	—	—	(243,338)
Changes in assets and liabilities:					
Decrease (increase) in mortgage loans receivable	(9,893,899)	50,463,601	19,950,671	6,359,851	66,880,224
Decrease (increase) in mortgage backed securities	—	(21,147,447)	192,015	—	(20,955,432)
Decrease in other assets	—	—	182,709	—	182,709
Decrease (increase) in accrued interest receivable	14,112	300,890	34,051	(3,811)	345,242
Decrease (increase) in other receivables and prepaid expenses	(56,519)	1,290,490	(43,768)	102,191	1,292,394
Increase in deferred mortgage origination fees, net	—	(110)	—	—	(110)
Increase (decrease) in accounts payable	26,675	(2,494)	2,525	109	26,815
Net cash provided by (used for) operating activities	<u>\$ (4,125,347)</u>	<u>48,744,777</u>	<u>28,135,939</u>	<u>12,199,964</u>	<u>84,955,333</u>

Supplemental noncash operating/investing activities:

Mortgage loans receivable converted to real estate owned amounted to \$3,703,575 in fiscal year 2011.

Supplemental noncash financing activities:

The fair value of investments increased \$182,479 in fiscal year 2011.

See accompanying notes to financial statements.

**VERMONT HOUSING FINANCE AGENCY**  
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Notes to Financial Statements

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**(1) Authorizing Legislation and Nature of Funds**

**(a) Authorizing Legislation**

Vermont Housing Finance Agency (the Agency) was created as a body politic and corporate of the State of Vermont by an Act of the General Assembly approved on April 11, 1974 (the Act). The purpose of the Agency is to promote the expansion of the supply of funds available for mortgages on residential housing and to encourage an adequate supply of safe and decent housing at reasonable costs. The Agency is a component unit of the State of Vermont and the State of Vermont appoints a majority of the Agency's board of commissioners.

The Agency is empowered by the Act and subsequent amendments to issue bonds and notes. Instruments so issued do not constitute a debt or obligation of the State of Vermont and are payable solely from revenues or assets of the Agency.

The State of Vermont has pledged and agreed with the holders of bonds and notes of the Agency not to impair in any way the rights and remedies of such holders.

**(b) Basis of Presentation and Nature of Funds**

The financial statements are presented on a program basis, combining the various restricted accounts required by each bond resolution into groups that account for the various bonds issued, related costs of issuance and debt service activity and the investment and related earnings of the bond proceeds in mortgages or loans and temporary investments and the maintenance of certain reserve fund requirements – all under the specific requirements of each resolution.

These accounts are in turn grouped by major fund as described below for the Single Family Mortgage Program fund, the Multiple Purpose Program Fund, the Multi-family Mortgage Program fund, and the unrestricted Operating fund of the Agency.

**(i) Operating Fund**

This fund derives its revenue principally from fees, mortgage interest and investment income. Operating expenses of the Agency are paid from this fund.

Federal grant revenues and expenses related to the Agency's participation in programs under the American Recovery and Reinvestment Act of 2009 (ARRA) and the Federal Housing and Economic Recovery Act of 2008 (HERA) are reported in the Operating Fund.

Transfers from program funds to the Operating Fund represent amounts allowed to be transferred pursuant to the terms of the Agency's bond resolutions.

**(ii) Single Family Mortgage Program Fund**

This fund has been established under the Single Family Insured Mortgage Bond Resolution adopted in September 1976, the Single Family Mortgage Purchase Bond Resolution adopted in June 1978, the Home Mortgage Purchase Bond Resolution adopted in July 1983, the Single Family Housing Bond Resolution adopted in September 1990, and the Mortgage Revenue Bond (Mortgage Backed Securities Program) indenture adopted in December 2009 under the

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federal New Issue Bond Program (NIBP). Monies from these programs have been used by the Agency to purchase mortgage backed securities or mortgage loans on single family residential housing units for persons and families of low and moderate income in Vermont.

**(iii) Multiple Purpose Program Fund**

This fund has been established under the Multiple Purpose Bond Indenture adopted in July 2007. Monies from these programs have been used by the Agency to finance mortgage loans on single family residential housing units and multi-family residential housing units for persons and families of low and moderate income within the state of Vermont.

**(iv) Multi-Family Mortgage Program Fund**

This fund has been established under the Multi-Family Mortgage Bond Resolution adopted in February 1977, the Multi-Family Housing Bond Resolution adopted in September 1981, the Multi-Family HFA initiative adopted in December 2009 under the federal NIBP, and various individualized taxable and tax exempt bond resolutions adopted between December 1985 and May 2007. Monies from these programs are used by the Agency to make and finance mortgage loans to sponsors of multi-family residential housing units for persons and families of low and moderate income within the State of Vermont.

**(v) Reserve Requirements**

Under various bond resolutions of the Agency, certain amounts from bond proceeds are required to be set aside and maintained for potential debt service requirements in trusted accounts. As of June 30, 2011, reserve requirements totaled \$12,669,897 for the Single Family Mortgage Programs, \$6,442,809 for the Multi-Family Mortgage Programs and \$4,670,579 for the Multiple Purpose Programs. Amounts held in reserve accounts as of June 30, 2011 exceeded the required balances in all cases.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Accounting**

The Agency's financial statements have been prepared on the accrual basis of accounting using the economic resource management focus. Accordingly, the Agency recognizes revenue in the period earned and expenses in the period incurred.

As permitted under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Agency has elected not to apply Statements of Financial Accounting Standards issued after November 30, 1989.

**VERMONT HOUSING FINANCE AGENCY**  
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**(b) Net Assets**

In accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the Agency's net assets have been classified for external financial reporting purposes into the following three net asset categories:

- *Invested in Capital Assets* – Capital assets, net of accumulated depreciation, and cost of construction or improvement of those assets.
- *Restricted* – Net assets subject to externally imposed stipulations, including those for excess yield loans and purposes restricted resources derived from federal programs.
- *Unrestricted* – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Commissioners or may otherwise be limited by contractual agreements with outside parties.

**(c) Cash Equivalents**

The Agency considers all highly liquid investments, including investment agreements with insurance companies, with original maturities of three months or less to be cash equivalents for purposes of the statement of cash flows. Cash equivalents also includes mortgage payments which are in transit to the trustee to be invested in collateralized repurchase agreements.

**(d) Mortgage Loans Receivable**

Mortgage loans receivable are carried at their uncollected principal balances less an allowance for loan losses on mortgages. The loan loss allowances are established based on historical loss experience. Future additions to the allowance may be necessary based on changes in economic conditions. At June 30, 2011, the allowance for loan losses for the Agency totaled \$24,037,187, broken out as follows: \$674,923 related to Single Family mortgage loans, \$1,815,655 for Multiple Purpose mortgage loans, \$1,250,000 for Multi-family mortgage loans and \$20,296,609 in the General fund. The allowance in the General Fund is comprised of \$2,117,780 for operating fund mortgage loans and \$18,178,829 for federally funded mortgage loans made under Section 1602 and the Tax Credit Assistance Program (TCAP).

Included in Multi-Family mortgage loans receivable is approximately \$9.9 million of mortgages funded by excess yield. The Agency estimates that it may be required to forgive or restructure up to this amount of these loans prior to the final maturities of the related 1999 and 2007 bond issues, in order to be in compliance with federal tax laws.

**(e) Mortgage Backed Securities**

Mortgage backed securities consist of Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Government National Mortgage Association (GNMA) certificates. Mortgage backed securities are reported at fair value on the statement of net assets, and the net increase (decrease) in the fair value is recognized in the statement of revenues, expenses, and changes in net assets.

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**(f) Investments**

Investments are comprised of short-term investments other than cash equivalents that mature in one year or less, and long-term investments with maturities in excess of one year. Investments are reported at fair value in the statement of net assets. The net increase (decrease) in the fair value of investments, including both realized and unrealized gains and losses, is recognized in the statement of revenues, expenses, and changes in net assets. Fair values of guaranteed investment contracts (GICs) are recorded at contract value. Fair values of all other investments are based upon quoted market prices.

**(g) Depreciation**

The Agency records purchases of its capital assets at cost and depreciates that cost over the estimated useful lives of the assets, which are forty years for the building and three to five years for furniture and fixtures, using the straight-line method.

**(h) Derivative Instruments – Interest Rate Swaps**

The Agency has entered into interest rate swap agreements with counterparties in order to achieve a lower overall cost of funds for certain bond issuances. In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the interest rate swap instruments are reported at fair value on the statement of net assets.

All of the Agency's interest rate swaps are deemed to be effective cash flow hedges and therefore the fair value adjustment is reported as a deferred inflow on the statement of net assets.

**(i) Amortization**

Costs of bond issuance, which represents underwriters' fees and legal costs are deferred and amortized over the lives of the respective issues using the straight-line method. Bond discounts and premiums are amortized using the effective interest method over the life of the bonds.

The difference between the reacquisition price and net carrying amount of defeased bonds is deducted from, or added to the refunding debt liability and amortized on the straight-line method over the shorter of the maturity of the new debt or the defeased debt.

**(j) Income Tax Status**

The Agency is generally exempt from federal and Vermont income taxes under Section 115 of the Internal Revenue Code and applicable state laws.

**(k) Deferred Loan Origination Fees and Costs**

Loan origination fees and certain related costs are deferred and amortized over the estimated lives of the respective loans.

**(l) Arbitrage to be Rebated**

Bonds issued by the Agency are subject to a variety of Internal Revenue Service (IRS) regulations which limit the amount of income which may be earned with nonmortgage investments to an amount

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not greater than that amount which would have been earned had the funds been invested at the yield on the bonds as defined by the IRS. Excess earnings must be rebated every five years. In 2011 \$616,215 was rebated to the IRS.

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

The Agency records all revenues and expenses related to its Single Family and Multi-Family loan programs as operating revenues and expenses since they are generated from the Agency's daily operations needed to carry out its statutory purposes. Investment income is recorded as operating revenue in all funds. Net appreciation and depreciation in the fair value of investments and federal grant revenues and expenses are recorded as nonoperating revenues and expenses. Gains and losses on bond redemption are recorded in operating revenues or expenses because they are a part of the normal operations of the Agency's activities.

Grants received from federal, state and local governments are recognized as nonoperating revenue as the related expenditures are incurred.

**(n) *Use of Estimates***

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires estimates and assumptions that affect the reported amount of the assets and liabilities and contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to estimates and assumptions include the provision for loan losses and the valuation of investments.

**(3) *Cash, Cash Equivalents and Investments***

For mortgage program investments, bond resolution requirements mandate specific classes of investment vehicles. Qualified investments are: direct obligations of the United States of America; obligations unconditionally guaranteed by the United States of America; indebtedness issued by certain federal agencies; bank time deposits evidenced by certificates of deposits insured by the Federal Depository Insurance Corporation (FDIC) and, if in excess of insured limits, collateralized in full by the aforementioned federal government investments; obligations of the State of Vermont, and/or federal or state insured mortgages; collateralized repurchase agreements secured by obligations of the federal government; GICs with the collateral held by or at the direction of the appropriate trustee; and, investment agreements with banks or bank holding companies rated in the top categories by nationally recognized rating agencies.

The Agency has an investment policy with an overriding goal of providing optimum coverage of risk exposure and maintaining liquidity necessary for future cash needs while maximizing the return on investments. All investment agreements with banks or bank holding companies, insurance companies or other financial institutions must be rated at least "A" by nationally recognized credit rating agencies or have posted adequate collateral to minimize the Agency's risk. All bonds are issued by U.S. Treasury or U.S. government agencies such as FNMA, FHLMC and FHLB, and had implied credit ratings of AAA at the time of purchase and continued to hold those ratings at June 30, 2011. In August of 2011, Standard & Poors (S&P) downgraded the long-term debt rating of the U.S. Government from AAA to AA+. S&P

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subsequently lowered its credit rating on both Fannie Mae (FNMA) and Freddie Mac (FHLMC) one level from AAA to AA+, noting that the two companies were directly reliant on the U.S. government and have been under U.S. government conservatorship since 2008. The debt of the U.S. Government, FNMA and FHLMC continue to be rated Aaa by Moody's Investment Services.

**(a) Custodial Credit Risk – Deposits**

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Agency's deposits may not be recovered. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. The deposits (including certificates of deposit) at June 30, 2011, were \$6.2 million. Of these, \$2.6 million were exposed to custodial credit risk as uninsured and uncollateralized.

**(b) Cash and Investments**

The Agency's cash and investments at June 30, 2011 are presented below (in thousands).

**Investments by Type**

June 30, 2011

<u>Investment type</u>	<u>Fair value</u>	<u>Investment maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
Cash	\$ 6,114	6,114	—	—	—
Money market	42,173	42,173	—	—	—
Certificate of deposit	100	100	—	—	—
Guaranteed investment contracts	48,761	30,684	—	—	18,077
US Bank Global (NIBP escrow bond)	100,321	100,321	—	—	—
U.S. Treasury securities	7,086	—	7,086	—	—
Government agency securities	1,362	—	607	—	755
Mortgage backed securities	70,877	1,419	—	392	69,066
	<u>\$ 276,794</u>	<u>180,811</u>	<u>7,693</u>	<u>392</u>	<u>87,898</u>

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The following table provides information on the credit ratings associated with the Agency's cash and investments at June 30, 2011 (in thousands):

<u>Investment type</u>	<u>Fair value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>NR</u>
Cash	\$ 6,114	—	—	—	6,114
Money market	42,173	—	—	—	42,173
Certificate of deposit	100	—	—	—	100
Guaranteed investment contracts	48,761	—	16,199	32,562	—
US Bank Global (NIBP escrow bond)	100,321	100,321	—	—	—
U.S. Treasury securities	7,086	7,086	—	—	—
Government agency securities	1,362	1,362	—	—	—
Mortgage backed securities	70,877	70,877	—	—	—
	<u>\$ 276,794</u>	<u>179,646</u>	<u>16,199</u>	<u>32,562</u>	<u>48,387</u>

(c) ***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributable to the magnitude of the Agency's investment in a single issuer. More than 18% of the Agency's cash and investments are invested in guaranteed investment contracts. AIG, Bayern LB, Transamerica, Ixis and Societe Generale are 30.93%, 30.16%, 19.83%, 4.95%, and 4.09%, respectively, of the Agency's total guaranteed investment contracts (GICs). The Agency's investment policy does not limit the amount invested in a single issue.

(d) ***Interest Rate Risk – Investments***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency's policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

(a) ***Single Family Mortgage Loans Receivable***

Single Family mortgage loans earn interest at annual rates ranging from 4.75% to 10.00%. Mortgage payments are received monthly by the Agency from which a service fee is generally retained by servicing lenders or the subservicer.

At June 30, 2011, approximately 67.4% of the Single Family mortgage portfolios consist of primary insured mortgages.

Mortgage loans, not requiring primary insurance, are limited to 80% of the appraised value of the property.

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June 30, 2011

**(b) Multi-Family Mortgage Loans and Construction Loans Receivable**

Multi-Family mortgage loans receivable earn interest at annual rates ranging predominantly from 1.50% to 14.00%, and are collateralized by first mortgage liens on all real and personal property of the mortgaged premises.

**(5) Capital Assets**

Capital asset activity for the year ended June 30, 2011 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Capital assets not being depreciated:				
Land	\$ 775,000	—	—	775,000
Total capital assets not being depreciated	<u>775,000</u>	<u>—</u>	<u>—</u>	<u>775,000</u>
Capital assets being depreciated:				
Building	1,000,834	—	—	1,000,834
Building improvements	663,890	23,450	—	687,340
Computer equipment	962,588	40,727	—	1,003,315
Furniture and fixtures	200,008	—	—	200,008
Total capital assets being depreciated	<u>2,827,320</u>	<u>64,177</u>	<u>—</u>	<u>2,891,497</u>
Less accumulated depreciation for:				
Building	(387,823)	(25,021)	—	(412,844)
Building improvements	(648,196)	(7,428)	—	(655,624)
Computer equipment	(761,115)	(77,421)	—	(838,536)
Furniture and fixtures	(190,328)	(4,268)	—	(194,596)
Total accumulated depreciation	<u>(1,987,462)</u>	<u>(114,138)</u>	<u>—</u>	<u>(2,101,600)</u>
Total capital assets being depreciated, net	<u>839,858</u>	<u>(49,961)</u>	<u>—</u>	<u>789,897</u>
Capital assets, net	\$ <u>1,614,858</u>	<u>(49,961)</u>	<u>—</u>	<u>1,564,897</u>

Current period depreciation expense of \$114,138 was charged to the operating fund.

**(6) Real Estate Owned**

Real estate owned at June 30, 2011 consists of properties held pending sale as a result of foreclosure by the Agency. Real estate owned is carried at the lower of cost or fair value less estimated costs to sell. A valuation allowance has been established to account for the reduction in value of properties held. At June 30, 2011, the valuation allowance totaled \$679,013.

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June 30, 2011

**(7) Escrowed Cash Deposits**

Escrowed cash deposits are received primarily from multi-family housing developers at the time the Agency makes permanent mortgage loans. Escrowed deposits are governed by agreements, and released upon satisfactory compliance with their terms.

**(8) Bonds Payable**

All bonds payable are general or special obligations of the Agency and are collateralized by the operating revenues, loans, funds and investments pledged pursuant to the respective bond resolutions. Interest is payable semi-annually. All bonds are subject to redemption after various dates at par value.

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June 30, 2011

Outstanding bonds payable at June 30, 2011 are as follows:

A. Single Family Mortgage Program Fund:

Housing Program:

Series 9, maturing 2011 to 2037, interest at 4.900% to 5.400%	\$ 8,470,000
Series 10, maturing 2011 to 2030, interest at 4.700% to 5.250%	4,650,000
Series 11, maturing 2011 to 2030, interest at 5.450% to 5.950%	1,590,000
Series 12, maturing 2011 to 2031, interest at 5.800% to 6.400%	1,885,000
Series 13, maturing 2011 to 2031, interest at 5.250% to 5.970%	4,245,000
Series 14, maturing 2012 to 2032, interest at 4.875% to 5.675%	5,785,000
Series 15, maturing 2011 to 2032, interest at 4.600% to 5.375%	9,115,000
Series 16, maturing 2012 to 2033, interest at 4.950% to 5.600%	15,060,000
Series 17, maturing 2011 to 2034, interest at 3.182% to 5.100%	12,945,000
Series 18, maturing 2012 to 2034, interest at 4.000% to 4.950%	12,900,000
Series 19, maturing 2011 to 2035, interest at 3.300% to 5.000%	15,260,000
Series 20, maturing 2011 to 2035, interest at 4.166% to 5.500%	16,110,000
Series 21, maturing 2011 to 2035, interest at 3.100% to 5.000%	24,950,000
Series 22, maturing 2011 to 2035, interest at 3.900% to 5.000%	24,205,000
Series 23, maturing 2011 to 2035, interest at 3.850% to 5.000%	37,355,000
Series 24, maturing 2011 to 2036, interest at 3.950% to 5.000%	25,095,000
Series 25, maturing 2011 to 2037, interest at 4.200% to 6.000%	32,440,000
Series 26, maturing 2011 to 2038, interest at 3.875% to 5.750%	36,925,000
Series 27, maturing 2011 to 2038, interest at 4.000% to 5.500%	<u>32,635,000</u>
Total Housing Program	<u>321,620,000</u>

Mortgage Revenue Bonds (Mortgage Backed Securities Program):

Series 2009A (NIBP Escrow Bonds), maturing 2041, interest at floating rate	<u>84,000,000</u>
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Series 2010A, Subseries A-1, maturing 2012 to 2041, interest at .075% to 4.5%	<u>30,000,000</u>
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Total Mortgage Revenue Bond Program	<u>114,000,000</u>
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Total Single Family Mortgage Program Fund	<u>\$ 435,620,000</u>
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**VERMONT HOUSING FINANCE AGENCY**  
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Notes to Financial Statements

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B. Multiple Purpose Bond Program Fund:

Multiple Purpose Bonds:

2007 Series A and B, maturing 2011 to 2038, interest at 4.000% to 5.750%	\$ 43,890,000
2007 Series C, maturing 2011 to 2038, interest at 4.3.99% to 5.750%	50,640,000
2008 Series C, maturing 2011 to 2040, interest at 2.7% to 5.350%	27,055,000
Total Multiple Purpose Bonds	<u>\$ 121,585,000</u>

C. Multi-Family Mortgage Program Fund:

Mortgage Program:

1999 Series A, maturing 2012 to 2020, interest at 5.000% to 5.125%	\$ 2,710,000
1999 Series B, maturing 2012 to 2030, interest at 5.650% to 6.000%	3,330,000
1999 Series C and D, maturing 2012 to 2021, interest at 5.400% to 5.800%	14,295,000
2000 Series A, maturing 2012 to 2039, interest at 5.900%	4,780,000
2000 Series B, C, and D, maturing 2011 to 2031, interest at 5.650% to 6.700%	1,635,000
2001 Series A, B, C, and D, maturing 2011 to 2032, interest at 5.400% to 7.270%	4,405,000
2002 Series A and B, maturing 2011 to 2039, interest at 4.750% to 7.200%	10,895,000
2003 Series A, maturing 2011 to 2043, interest at 5.050% to 5.250%	3,975,000
2003 Series C, maturing 2012 to 2034, interest at 4.150% to 5.100%	9,735,000
2004 Series A, B, and C, maturing 2011 to 2046, interest at 3.900% to 6.300%	13,155,000
2004 Series D, maturing 2011 to 2039, interest at 4.650% to 4.900%	2,600,000
2005 Series A, B, C, and D, maturing 2011 to 2035, interest at 4.400% to 5.750%	4,050,000
Total Mortgage Program	<u>75,565,000</u>

Direct Placement Program:

Northgate Housing Program:

Four series of bonds, maturing 2012 to 2032, interest at 7.085% to 8.25%	\$ 5,324,989
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Highgate Housing Program:

Two series of bonds, maturing 2012 to 2031, interest at 6.450% to 7.741%	2,475,000
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Kilbourn Mobile Home Park Bond:

Taxable bond, maturing 2012 to 2017, interest at 7.500%	171,200
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T.D. Banknorth Borrowing – Chittenden Housing Corp. Bond:

Maturing 2012, interest at 5.410%	3,551,820
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Multi-Family variable rate demand bonds, Series 1

Maturing 2012 to 2038, interest at 4.180% to 5.490%	3,965,000
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Multi-Family variable rate demand bonds, Series 2

Maturing 2012 to 2038, interest at 3.756% to 4.610%	653,294
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Total Direct Placement Programs	<u>16,141,303</u>
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HFA Initiative Multifamily Bonds:

2009 Series A, (NIBP Escrow Bonds) maturing 2051, interest at floating rate	\$ 16,290,000
2009 Series B, maturing 2051, interest at 3.61%	<u>6,700,000</u>
Total HFA Initiative Bonds	<u>22,990,000</u>
Total Multi-Family Mortgage Program Fund	<u>114,696,303</u>

D. Operating Fund:

Northgate Housing Site Acquisition, maturing 2010 to 2031, interest at 7%	<u>523,554</u>
Total bonds payable	<u>\$ 672,424,857</u>

All calendar year 2011 maturities on bonds payable occur after June 30, 2011.

NIBP Escrow Bonds are subject to mandatory redemption on December 31, 2011.

Future maturities on bonds payable as of June 30, 2011 are as follows (in thousands):

	Multi-Family Mortgage Programs						Multiple Purpose Programs	
	Mortgage Program		Direct Placement Programs		HFA Initiative Multifamily Bonds		Multiple Purpose Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:								
2012	\$ 3,010	4,132	337	793	16,400	282	2,830	5,749
2013	3,115	3,972	3,823	742	120	244	2,540	5,630
2014	2,175	3,812	324	693	120	240	2,365	5,520
2015	2,305	3,690	334	672	120	235	2,205	5,413
2016	2,300	3,565	355	650	120	231	2,295	5,309
2017 – 2021	19,785	15,020	2,259	2,812	610	1,089	14,685	24,656
2022 – 2026	10,510	10,585	2,452	2,111	1,150	931	19,025	20,629
2027 – 2031	13,345	7,344	3,330	1,245	1,200	718	22,840	15,455
2032 – 2036	12,930	3,576	2,002	437	1,350	498	29,700	9,093
2037 – 2041	5,175	880	925	49	1,770	208	23,100	1,654
2042 – 2046	840	128	—	—	30	1	—	—
2047 – 2051	75	2	—	—	—	—	—	—
Total	\$ 75,565	56,706	16,141	10,204	22,990	4,677	121,585	99,108

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	<b>Single Family Mortgage Programs</b>							
	<b>Housing Program</b>		<b>Mortgage Revenue Bonds</b>		<b>Operating Fund</b>		<b>Agency totals</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
Year ending June 30:								
2012	\$ 7,335	14,874	84,295	876	12	37	114,219	26,742
2013	7,410	14,556	600	916	13	36	17,621	26,096
2014	7,720	14,228	610	910	14	35	13,327	25,437
2015	8,580	13,880	620	901	14	34	14,178	24,825
2016	9,660	13,482	635	890	15	33	15,380	24,159
2017 – 2021	56,855	60,136	3,485	4,190	94	147	97,773	108,051
2022 – 2026	67,220	45,777	4,230	3,538	132	110	104,719	83,681
2027 – 2031	74,250	29,265	5,280	2,618	185	56	120,431	56,703
2032 – 2036	71,015	11,149	6,350	1,728	45	3	123,392	26,484
2037 – 2041	11,575	615	7,540	690	—	—	50,085	4,096
2042 – 2046	—	—	355	5	—	—	1,225	134
2047	—	—	—	—	—	—	75	2
Total	\$ 321,620	217,962	114,000	17,262	524	491	672,425	406,410

A summary of bonds payable, discount on bonds, and premium on bonds and arbitrage rebate payable activity for the year ended June 30, 2011 is as follows (in thousands):

	<b>Balance at</b>			<b>Balance at</b>	<b>Amounts due</b>	<b>Amounts due</b>
	<b>June 30, 2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2011</b>	<b>within one year</b>	<b>thereafter</b>
Bonds payable	\$ 751,201	12,000	(90,776)	672,425	114,219	558,206
Discount on bonds	(5,219)	—	743	(4,476)	(228)	(4,248)
Premium on bonds	3,231	—	(843)	2,388	99	2,289
Arbitrage rebate payable	1,217	288	(1,296)	209	117	92

The Agency has entered into interest rate swap agreements with counterparties in connection with the Single Family Housing Bonds, Variable Rate Demand Bonds (VRDB) and T.D. Banknorth – Chittenden Housing Bond in order to obtain a synthetic fixed interest rate at a cost expected to be less than that associated with variable rate debt. The T.D. Banknorth – Chittenden Housing Bond swap matured on June 28, 2011. Under the swap agreement, the swap provider pays the Agency an amount based on the London InterBank Offered Rate (LIBOR) or the Securities Industry and Financial Markets Association (SIFMA), and the Agency pays the swap provider an amount at a fixed rate of interest.

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Using rates as of June 30, 2011, debt service requirements of the variable rate bonds and net swap payments, assuming current interest rates remain constant, were as follows (in thousands):

	<u>Variable rate</u>		<u>Interest rate swaps, net</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
Fiscal year ending June 30:				
2012	\$ 995	372	4,792	6,159
2013	1,030	368	4,756	6,154
2014	1,075	364	4,719	6,158
2015	1,975	359	4,675	7,009
2016	2,865	351	4,602	7,818
2017 – 2021	22,355	1,566	20,953	44,874
2022 – 2026	26,590	1,108	15,782	43,480
2027 – 2031	29,130	719	10,850	40,699
2032 – 2036	31,580	283	5,179	37,042
2037 – 2040	14,410	21	819	15,250
	<u>\$ 132,005</u>	<u>5,511</u>	<u>77,127</u>	<u>214,643</u>

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A summary of the swap agreement follows:

<u>Issue</u>	<u>Counter-Party</u>	<u>Ratings (Moody's/ S&amp;P)</u>	<u>Effective date</u>	<u>Notional amount</u>	<u>Termination date</u>	<u>Termination option date</u>	<u>Fixed swap payment rate</u>	<u>Variable receivable rate</u>	<u>Fair value at 30-Jun-11</u>
Series 17	UBS AG	Aa3/A+	4/23/2003	\$ 3,885,000	5/1/2019	—	3.182%	70% of LIBOR	\$ (240,214)
Series 19	UBS AG	Aa3/A+	4/8/2004	5,850,000	11/1/2027	—	3.492%	70% of LIBOR	(537,130)
Series 20	UBS AG	Aa3/A+	8/12/2004	6,100,000	5/1/2028	11/1/2014	4.166%	70% of LIBOR	(557,357)
Series 21	UBS AG	Aa3/A+	11/30/2004	8,700,000	5/1/2029	—	3.682%	SIFMA + 0.10% (if LIBOR < 3.00%) 68% of LIBOR (if LIBOR > 3.00%)	(883,325)
Series 22	UBS AG	Aa3/A+	6/8/2005	13,800,000	11/1/2034	5/1/2012	3.731%	65% of LIBOR +0.28%	(891,142)
Series 23	UBS AG	Aa3/A+	10/26/2005	14,500,000	11/1/2034	11/1/2014	3.569%	65% of LIBOR +0.28%	(1,116,165)
Series 24	UBS AG	Aa3/A+	4/19/2006	10,440,000	11/1/2035	5/1/2015	3.973%	65% of LIBOR +0.28%	(980,652)
Series 25	UBS AG	Aa3/A+	7/12/2006	12,945,000	11/1/2036	11/1/2015	4.251%	65% of LIBOR +0.28%	(1,539,184)
Series 26	UBS AG	Aa3/A+	10/26/2006	13,450,000	5/1/2037	5/1/2016	3.897%	65% of LIBOR +0.28%	(1,379,217)
MP2007 A	UBS AG	Aa3/A+	7/24/2007	12,800,000	5/1/2037	5/1/2017	4.197%	65% of LIBOR +0.28%	(1,586,522)
MP2007 C	UBS AG	Aa3/A+	9/12/2007	16,500,000	11/1/2037	5/1/2017	3.990%	65% of LIBOR +0.28%	(1,830,629)
MP2008 C	Wells Fargo	Aa2/AA	9/24/2008	10,670,000	5/1/2040	—	3.167%	SIFMA + 0.05%	(609,116)
MF Series 1-A	Key Bank	A3/A-	1/25/2007	620,000	1/1/2022	—	4.240%	SIFMA + 0.15%	(76,975)
MF Series 1-B	Key Bank	A3/A-	1/25/2007	1,695,000	1/1/2022	—	4.180%	SIFMA + 0.10%	(209,103)
MF Series 1-C	Key Bank	A3/A-	1/25/2007	1,650,000	1/1/2022	—	5.490%	LIBOR + 0.05%	(313,872)
MF Series 2-A	Key Bank	A3/A-	1/24/2008	1,245,000	1/5/2023	—	3.800%	SIFMA + 0.15%	(103,510)
.F Series 2-B	Key Bank	A3/A-	1/24/2008	260,000	1/5/2023	—	3.756%	SIFMA + 0.10%	(21,746)
MF Series 2-C	Key Bank	A3/A-	1/24/2008	970,000	1/5/2023	—	4.610%	LIBOR + 0.05%	(112,413)
				<u>\$ 136,080,000</u>					<u>\$ (12,988,272)</u>

By using derivative financial instruments to hedge exposures to changes in interest rates, the Agency exposes itself to credit, market risk and basis risk. Credit risk is the failure of the counter-party to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counter-party owes the Agency, which creates credit risk for the Agency. When the fair value of a derivative contract is negative, the Agency owes the counter-party and, therefore, it does not possess credit risk. The Agency minimizes its credit risk in derivative instruments by entering into transactions with high-quality counter-parties whose credit rating is higher than A. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rates is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Basis risk is the risk that variable rate payments to bondholders will not equal variable rate receipts from the counterparty.

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**(9) Notes Payable**

The Agency may borrow from the Federal Home Loan Bank (FHLB) in an amount not to exceed assets pledged to the FHLB. As of June 30, 2011, the Agency had outstanding borrowings totaling \$5,320,422 which are secured by mortgage loans with a carrying value of \$5,905,162. These borrowings have interest rates ranging from 6.3% to 7.7% and mature through December 2018.

The Agency is operating under unsecured variable rate lines of credit that total \$79.6 million with lending institutions expiring in 2011 and 2012. At June 30, 2011, there was a \$20,289,651 balance outstanding at interest rates of 1.4% to 3.0%. The lines of credit were entered into in order to fund working capital, and to be used for specific construction projects financed by the Agency.

The Agency has a \$500,000 note payable to the Vermont Community Foundation at a rate of 3.0%, maturing in November 2011. The note is uncollateralized.

The Agency has a \$2,000,000 note payable to the MacArthur Foundation at a rate of 2.0%, maturing through October 2019. The proceeds of this note will be used to provide low cost pre-development, energy, and equity bridge loans to multi-family housing projects.

The Agency has an unsecured line of credit with a bank for \$10,000,000 for the purpose of acquiring mortgage backed securities prior to the issuance of single family bonds. This line of credit bears interest at a floating rate based on overnight LIBOR. There was no balance outstanding at June 30, 2011.

Future maturities on notes payable and line of credit borrowings as of June 30, 2011 are as follows (in thousands):

	Operating fund		Multi family Direct placement program		Agency totals	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:						
2012	\$ 2,935	521	12,909	227	15,844	748
2013	1,729	442	3,690	16	5,419	458
2014	246	375	—	—	246	375
2015	340	356	—	—	340	356
2016	694	331	—	—	694	331
2017 – 2020	5,567	436	—	—	5,567	436
Total	\$ 11,511	2,461	16,599	243	28,110	2,704

A summary of line of credit borrowings and notes payable activity for the year ended June 30, 2011 is as follows (in thousands):

	Balance at June 30, 2010	Increases	Decreases	Balance at June 30, 2011	Amounts due within one year	Amounts due thereafter
Line of credit borrowings	\$ 25,638	20,583	(25,931)	20,290	15,100	5,190
Notes payable	7,014	1,000	(194)	7,820	744	7,076
	\$ 32,652	21,583	(26,125)	28,110	15,844	12,266

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**(10) Asset Restrictions**

Pursuant to the Act and agreements with bondholders and other parties, the Agency's assets are pledged to secure specific obligations or are otherwise restricted.

Programs which are financed by the issuance of bonds are accounted for separately in accordance with each of the general bond resolutions. Program assets and revenues are pledged to bondholders. Revenues in excess of required amounts are available to be transferred to the Operating Fund.

Amounts transferred to the Operating Fund from the bond resolutions are free and clear of any lien or pledge created by the bond resolutions, and may be used for any lawful purpose under the Act, including payments to various accounts within the bond resolutions. All of the outstanding bonds, except for the Single Family Housing Bonds, are general obligations of the Agency. For general obligation bonds, the Agency covenants that it will restore deficiencies to the bond programs, as defined by the bond resolutions, from the Operating Fund.

The Operating Fund is also the primary source to pay administrative expenses in connection with current and future housing programs, and to provide collateral for credit agreements.

Net assets derived from purpose restricted resources provided under contractual agreements with federal agencies are restricted to the underlying purpose.

**(11) Retirement Plan**

Upon meeting certain eligibility requirements, the Agency's employees are eligible to participate in the Vermont Housing Finance Agency 403(b) Plan, a noncontributory defined contribution pension plan. For the year ended June 30, 2011, the Agency had a total payroll of \$2,225,005 of which \$2,208,749 was covered by the pension plan. The Agency's contribution to the Plan is 10% of the covered payroll. Employees are 30% vested in benefits under the plan upon hire, and vest in the remaining 70% on a pro-rata basis over the next five years of service. Forfeitures on nonvested benefits by terminated employees reduce the Agency's contribution. The cost of the plan was \$218,813 for the year ended June 30, 2011, and is included in salaries and benefits expense. The Agency does not provide any postemployment benefits other than the 403(b) plan.

**(12) Gain on Bond Redemptions**

During the year ended June 30, 2011, the Agency redeemed \$56.3 million of its Single-Family Housing Program Bonds, \$19.1 million of its Multiple Purpose Bonds, and none of its Multi-Family Mortgage Bonds. A gain on bond redemptions of \$136,132 was recognized which represents the unamortized balance of bond premium and discount and cost of issuance costs associated with the bonds retired.

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The following is a summary of the redeemed bonds:

Single Family Housing Program:	
Series 9	\$ 1,320,000
Series 10	990,000
Series 11	380,000
Series 12	235,000
Series 13	835,000
Series 14	1,165,000
Series 15	1,255,000
Series 16	3,665,000
Series 17	2,165,000
Series 18	2,020,000
Series 19	3,805,000
Series 20	2,115,000
Series 21	3,285,000
Series 22	5,720,000
Series 23	4,920,000
Series 24	5,280,000
Series 25	6,275,000
Series 26	6,805,000
Series 27	4,100,000
	<u>56,335,000</u>
	<u><u>\$ 56,335,000</u></u>
Multiple Purpose Bonds:	
2007 Series A, B	\$ 8,640,000
2007 Series C	6,555,000
2008 Series C	3,860,000
	<u>19,055,000</u>
	<u><u>\$ 19,055,000</u></u>

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**(13) Federal Programs**

In fiscal year 2011, the Agency participated in the following federal funding programs under the American Recovery and Reinvestment Act of 2009 (ARRA) and Federal Housing and Economic Recovery Act of 2008 (HERA):

On July 1, 2009 VHFA entered into an agreement with the United States Department of Housing and Urban Development (HUD) to administer \$5.4 million of funding available to eligible Vermont housing development under Federal Tax Credit Assistance Program (TCAP). The TCAP program, authorized by the American Recovery and Reinvestment Act pays for capital items in developments that receive Section 42 Housing Credits. As of June 30, 2011, the Agency had distributed \$5.3 million from this program.

On August 26, 2009 VHFA made its first distribution under Section 1602 of the American Recovery and Reinvestment Act of 2009 which authorized the United States Department of the Treasury to issue grants to State housing credit agencies in lieu of low-income housing credits. The program allows states to exchange up to 100% of returned and unused pre-2009 ceiling credits and 40% of 2009 per capita and national pool credits for cash. VHFA administered the distribution of the cash to eligible housing developments to pay for capital items. As of June 30, 2011, VHFA had exchanged approximately \$1.7 million of credits for \$14.2 million in awarded funds and made distributions of \$12.8 million.

On June 15, 2009 VHFA signed a memorandum of agreement with the State of Vermont to administer \$7 million out of \$19.6 million of Neighborhood Stabilization Program (NSP) funds allocated to the State under the Federal Housing and Economic Recovery Act of 2008. VHFA's portion to administer is called the Homeownership Acquisition and Rehabilitation Program (HARP). The NSP-HARP funds were used to purchase single family homes that have been foreclosed upon, rehabilitate each home with a focus on energy efficiency, and resell the homes to income eligible homebuyers. Sales proceeds are recycled to acquire additional properties until 2013 to leverage the original \$7.0 million to a goal of \$10 million over the next three years. The NSP program requires all States receiving these funds to fully obligate those funds by no later than September 30, 2010 or return them to HUD. Vermont was one of the first states in the country to fully allocate the NSP funds it had received within the first 9 months of the program start up. As of June 30, 2011, VHFA had purchased 40 homes worth \$4.9 million and sold 19 homes at an aggregate price of \$3.0 million.

On May 11, 2011 VHFA signed a memorandum of agreement with the State of Vermont to administer \$2.9 million out of \$5.0 million of Neighborhood Stabilization Program (NSP-3) funds allocated to the State under the Federal Housing and Economic Recovery Act of 2008. VHFA's portion to administer is called the Homeownership Acquisition and Rehabilitation Program (HARP). The NSP-HARP funds were used to purchase single family homes that have been foreclosed upon, rehabilitate each home with a focus on energy efficiency, and resell the homes to income eligible homebuyers. Sales proceeds are recycled to acquire additional properties until 2014 to leverage the original \$2.9 million to a goal of \$4.0 million over the next three years. The NSP program requires all States receiving these funds to fully obligate those funds by no later than March 3, 2014. Given the recent start to the NSP -3 program, only two homes were acquired in the month prior to the fiscal year end, at a total value of \$273,000. No homes were sold prior to June 30, 2011 under the NSP-3 Program.

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During fiscal year 2011, the Agency administered the “Section 8 Housing Assistance Payment Program” (HAP) under Annual Contribution Contracts (ACC) with the Department of Housing and Urban Development (HUD) for 19 housing developments (377 units). Under the ACC, VHFA receives funds from HUD with which to make housing assistance payments to an owner of assisted housing pursuant to Housing Assistance Payment Contracts entered into by HUD with the owners. Under the Section 8 program, the owner must determine the portion of the gross rent to be paid by tenants in accordance with HUD schedules and criteria, typically 30% of the tenant’s adjusted income (as defined by HUD). The balance of the monthly contract rent is paid by VHFA in the form of monthly housing assistance payments. The Agency distributed \$3.1 million in HAP payments under this program during the year ended June 30, 2011.

**(14) Commitments and Contingencies**

At June 30, 2011, the Agency had outstanding commitments in the amount of \$8,147,643 to purchase mortgage loans or mortgage backed securities pursuant to its normal funding from bond proceeds. In addition, there were commitments of \$30,729,796 for general loans or future program subsidy purposes.

Under the Single Family Mortgage Programs, the Agency has obtained surety bonds in the amount of \$23,534,719 expiring between 2030 and 2038, which satisfy the requirements of certain bond resolutions.

**(15) Risk Management**

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors; and omissions; injuries to employees; employees’ health; and natural disasters. The Agency manages these risks through a combination of participating in the State self-insurance program and purchasing commercial insurance packages in the name of the Agency. The Agency has not experienced settled claims resulting from these risks which have exceeded its insurance coverage. In addition, the Agency’s bylaws provide for the indemnification of Agency commissioners and officers by the Agency. This indemnification requirement is supported by various statutes related to claims against employees and entities of the State and the Agency’s authorizing legislation which includes the benefit of sovereign immunity.

**(16) Subsequent Events**

The events that occur after the date of the Statement of Net Assets but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the Statement of Net Assets are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the Statement of Net Assets require disclosure in the accompanying notes. Management evaluated the activity of VHFA through September 30, 2011 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.