



**VERMONT HOUSING FINANCE AGENCY**

Financial Statements and  
Required Supplementary Information

June 30, 2004

(With Independent Auditors' Report Thereon)

# VERMONT HOUSING FINANCE AGENCY

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis – Required Supplementary Information (Unaudited)	2
Statement of Net Assets	7
Statement of Revenues, Expenses, and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements	11



**KPMG LLP**  
P.O. Box 564  
Burlington, VT 05402

Suite 400  
356 Mountain View Drive  
Colchester, VT 05446

## **Independent Auditors' Report**

To the Honorable Elizabeth M. Ready  
Auditor of Accounts of the  
State of Vermont and  
The Commissioners  
Vermont Housing Finance Agency:

We have audited the accompanying statement of net assets of each of the major funds of the Vermont Housing Finance Agency as of June 30, 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. 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. 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 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 financial position of each of the major funds of the Vermont Housing Finance Agency at June 30, 2004, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 2 to 6 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

**KPMG LLP**

September 3, 2004

## **VERMONT HOUSING FINANCE AGENCY**

### **Management's Discussion and Analysis**

June 30, 2004

**(Unaudited)**

This section of the Vermont Housing Finance Agency's (the Agency) annual Financial Report presents the Agency's management discussion and analysis of the Agency's financial performance and significant changes in financial position for fiscal year ended June 30, 2004. 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 up to a total outstanding amount of \$900 million. 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 sale of tax-exempt and taxable bonds, advances from the Federal Home Loan Bank (FHLB), and from the administration of federal programs. Since September 1974, the Agency has issued \$1.987 billion aggregate principal amount of bonds and notes, of which \$571 million was outstanding as of June 30, 2004, to finance its various programs. The proceeds of the bonds 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 loans on single family residential housing units for persons and families of low and moderate income in the state, to make loans to mortgage lenders to finance such single family housing and to make loans to finance certain other 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 financial statements are intended to provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**VERMONT HOUSING FINANCE AGENCY**

Management's Discussion and Analysis

June 30, 2004

**(Unaudited)**

**Financial Highlights and Analysis**

The following table summarizes the net assets of the Agency as of June 30, 2004 with comparative data from the prior fiscal year.

	<u>2004</u>	<u>2003</u>	<u>Percentage Change 2004-2003</u>
<b>Assets</b>			
Cash and investments	\$ 196,188,286	281,664,242	(30.3)
Loans receivable	445,322,983	456,935,208	(2.5)
Other assets	15,467,645	16,264,274	(4.9)
Total assets	<u>656,978,914</u>	<u>754,863,724</u>	<u>(13.0)</u>
<b>Liabilities</b>			
Bonds and notes payable	570,701,506	667,308,916	(14.5)
Other liabilities	8,939,297	10,091,660	(11.4)
Total liabilities	<u>579,640,803</u>	<u>677,400,576</u>	<u>(14.4)</u>
<b>Net Assets:</b>			
Restricted	67,393,877	68,004,664	(0.9)
Unrestricted	9,944,234	9,458,484	5.1
Total net assets	<u>\$ 77,338,111</u>	<u>77,463,148</u>	<u>(0.2)</u>

*Cash and Investments*

Total cash and investments decreased by \$85.5 million, or 30.3% at June 30, 2004 compared to June 30, 2003. This was primarily the result of a reduction in bonds and notes payable (net decrease of \$96.6 million) offset by principal loan collections in excess of loan originations (\$9.9 million).

*Mortgage and Construction Loans Receivable*

Total Mortgage and Construction Loans Receivable decreased by \$11.6 million, or 2.5% at June 30, 2004 compared to June 30, 2003. Despite continued high levels of prepayments, the total portfolio remained unchanged due to an increase in new loan originations. Originations of single family loans increased by \$13.7 million, or 25%, over levels from last fiscal year. The amount of new multi-family loans originated decreased by \$3.1 million.

## VERMONT HOUSING FINANCE AGENCY

### Management's Discussion and Analysis

June 30, 2004

**(Unaudited)**

#### *Bonds and Notes Payable*

During the current fiscal year, total bond and notes payable decreased by \$96.6 million, or 14.0%.

##### New debt issues

- There were two new bond series of Single Family Housing Bonds issued totaling \$63.6 million in bonds and \$20 million in notes. These proceeds were used to finance single family mortgage purchases.
- There were two new bond series of Multi-Family Mortgage Bonds issued totaling \$25.7 million. These proceeds were used to finance the construction of twelve different projects.
- There were seven new bond issues under the Direct Placement Program totaling \$9.2 million. These proceeds were used to finance seven different projects.

##### Bond redemptions

- \$26.3 million of Home Mortgage Purchase Program bonds were redeemed prior to maturity, as a result of mortgage loan prepayments received in the current and prior fiscal years.
- \$136.2 million of Single Family Housing Bonds were redeemed prior to maturity as a result of mortgage loan prepayments received.
- \$1.0 million of Multi-Family Mortgage Bonds were redeemed.

##### Refunding

- \$6.7 million of Housing Development Bonds were refunded.

##### Debt ratings

- Moody's Investors Service affirms a general obligation rating of A2 for the Agency. All bond issues are rated by Moody's Investors Service and Standard and Poor's with a minimum stand along rating of single A. Many Agency bond issues carry bond insurance, which upgrades the bond rating to AAA.

**VERMONT HOUSING FINANCE AGENCY**

Management's Discussion and Analysis

June 30, 2004

**(Unaudited)**

The following summarizes the changes in net assets of the Agency for the year ended June 30, 2004 with comparative data from the prior fiscal year.

	<u>2004</u>	<u>2003</u>	<u>Percentage Change 2004-2003</u>
<b>Operating Revenues</b>			
Interest on loans	\$ 31,305,228	36,472,268	(14.2)
Interest on investments	12,110,078	13,331,139	(9.2)
Fee income	676,581	550,219	23.0
Other revenue	<u>66,521</u>	<u>59,427</u>	11.9
Total operating revenues	<u>44,158,408</u>	<u>50,413,053</u>	<u>(12.4)</u>
<b>Operating Expenses</b>			
Financing costs	35,719,912	41,067,868	(13.0)
Operational expenses	4,030,912	3,767,871	7.0
Mortgage servicing	957,357	1,168,464	(18.1)
Loan loss provision	(351,814)	(222,738)	57.9
Loss on bond redemptions	<u>1,722,195</u>	<u>695,166</u>	147.7
Total operating expenses	<u>42,078,562</u>	<u>46,476,631</u>	<u>(9.5)</u>
Operating income	<u>2,079,846</u>	<u>3,936,422</u>	<u>(47.2)</u>
<b>Non-Operating Revenues</b>			
Net appreciation (depreciation) in fair value of investments:			
Net (decrease) increase in fair value of investments	(4,724,756)	2,442,524	(293.4)
Gain on sale of investments	<u>2,519,873</u>	<u>314,929</u>	700.1
Net appreciation (depreciation) in fair value of investments	<u>(2,204,883)</u>	<u>2,757,453</u>	<u>(180.0)</u>
Excess (deficiency) of revenues over expenses	(125,037)	6,693,875	(101.9)
Net assets at beginning of year	<u>77,463,148</u>	<u>70,769,273</u>	9.5
Net assets at end of year	<u>\$ 77,338,111</u>	<u>77,463,148</u>	<u>(0.2)</u>

*Results of Operations*

The Agency's change in net assets shifted to a loss of \$125,037 in fiscal year 2004 compared to a prior year surplus of \$6.69 million. The effects of increased bond redemption costs from \$695,166 in FY 2003 to \$1,722,195 in FY 2004, and the decrease in fair value of investments (exclusive of realized gains and losses) by \$7,167,280 between the two years, impacted the change in net assets.

## VERMONT HOUSING FINANCE AGENCY

### Management's Discussion and Analysis

June 30, 2004

**(Unaudited)**

Total operating revenues decreased from \$50.4 million to \$44.2 million from fiscal year 2003 to 2004, resulting primarily from the continuing trend of refinancing in the sustained low rate environment, a reduction in overall loan portfolio and new loans originated at lower rates. Lower investment interest rates negatively impact VHFA's revenue stream as well. Total operating expenses declined by 9.5% from FY 2003 to FY 2004 largely as a result of a reduction in the overall level of outstanding debt.

The Agency budgets its day-to-day operating costs and related miscellaneous income items in its Operating Fund. The fund incurs an annual operating deficit, but typically reports an increase in net assets from program fund balance transfers. The budget is approved each year by the Agency board of commissioners. For FY 2004 actual Operating Fund income was \$1.75 million compared to \$1.62 million budgeted. Actual expenses were \$4.67 million compared to \$4.91 million budgeted, and transfers in (net) were \$3.4 million versus \$3.80 million budgeted. Net Operating Fund assets increased by \$485,750 from June 30 2003 to June 30, 2004.

#### **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 financial information, please contact the Chief Financial Officer at Vermont Housing Financial Agency, 164 St. Paul Street, Burlington, VT 05401 or visit our website at [www.vhfa.org](http://www.vhfa.org).

VERMONT HOUSING FINANCE AGENCY

Statement of Net Assets

June 30, 2004

	Operating Fund	Single Family Mortgage Program Fund	Multi-Family Mortgage Program Fund	General Obligation Fund	Total
<b>Assets:</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 5,255,462	—	—	—	5,255,462
Investments	100,000	—	—	—	100,000
Accrued interest receivable:					
Mortgage and construction loans and notes	1,141,582	1,547,645	447,401	—	3,136,628
Investments	2,488	929,683	555,608	4	1,487,783
Mortgage and construction loans and notes receivable, current	2,977,090	6,342,595	12,656,517	—	21,976,202
Deferred bond issuance costs, current	—	69,621	51,762	—	121,383
Receivables and prepaid expenses, current	150,310	600,003	11,388	—	761,701
Interfund receivables (payables)	761,497	1,017,376	(1,771,550)	(7,323)	—
<b>Total current assets</b>	<b>10,388,429</b>	<b>10,506,923</b>	<b>11,951,126</b>	<b>(7,319)</b>	<b>32,839,159</b>
<b>Noncurrent assets:</b>					
Restricted cash and cash equivalents	—	95,988,557	35,411,685	7,319	131,407,561
Restricted investments	—	49,834,246	9,591,017	—	59,425,263
Mortgage and construction loans and notes receivable, noncurrent	16,635,061	304,642,468	102,069,252	—	423,346,781
Deferred bond issuance costs, net	—	1,861,892	959,941	—	2,821,833
Deferred mortgage origination fees, net	—	1,335,232	—	—	1,335,232
Receivables, noncurrent	6,537	2,182,270	1,100,279	—	3,289,086
Land	775,000	—	—	—	775,000
Building (less accumulated depreciation of \$237,698)	763,136	—	—	—	763,136
Office furniture and fixtures (less accumulated depreciation of \$924,433)	327,172	—	—	—	327,172
Other assets and real estate owned	—	648,691	—	—	648,691
<b>Total noncurrent assets</b>	<b>18,506,906</b>	<b>456,493,356</b>	<b>149,132,174</b>	<b>7,319</b>	<b>624,139,755</b>
<b>Total assets</b>	<b>\$ 28,895,335</b>	<b>467,000,279</b>	<b>161,083,300</b>	<b>—</b>	<b>656,978,914</b>
<b>Liabilities:</b>					
<b>Current liabilities:</b>					
Bonds payable, current	\$ 7,267	6,405,000	12,953,112	—	19,365,379
Net bond and note premium (discount) expense, current	—	(63,761)	(129,714)	—	(193,475)
Deferred loan origination fees, current	88,136	—	—	—	88,136
Accounts payable	517,920	405,258	32,749	—	955,927
Arbitrage rebate payable	—	1,301,168	—	—	1,301,168
Escrowed cash deposits	3,161,101	3,443	461,844	—	3,626,388
Notes payable, current	156,939	—	—	—	156,939
Accrued interest payable	63,800	3,710,362	2,390,732	—	6,164,894
<b>Total current liabilities</b>	<b>3,995,163</b>	<b>11,761,470</b>	<b>15,708,723</b>	<b>—</b>	<b>31,465,356</b>
<b>Noncurrent liabilities:</b>					
Bonds payable, noncurrent	579,178	395,590,000	120,995,635	—	517,164,813
Unamortized discount on bonds, net	—	(1,672,127)	(1,693,999)	—	(3,366,126)
Notes payable, noncurrent	14,014,375	20,000,000	—	—	34,014,375
Deferred loan origination fees, noncurrent	362,385	—	—	—	362,385
<b>Total noncurrent liabilities</b>	<b>14,955,938</b>	<b>413,917,873</b>	<b>119,301,636</b>	<b>—</b>	<b>548,175,447</b>
<b>Total liabilities</b>	<b>18,951,101</b>	<b>425,679,343</b>	<b>135,010,359</b>	<b>—</b>	<b>579,640,803</b>
<b>Net assets:</b>					
Invested in capital assets	1,865,308	—	—	—	1,865,308
Restricted	—	41,320,936	26,072,941	—	67,393,877
Unrestricted	8,078,926	—	—	—	8,078,926
<b>Total net assets</b>	<b>\$ 9,944,234</b>	<b>41,320,936</b>	<b>26,072,941</b>	<b>—</b>	<b>77,338,111</b>

See accompanying notes to financial statements.

**VERMONT HOUSING FINANCE AGENCY**  
Statement of Revenues, Expenses, and Changes in Net Assets  
Year ended June 30, 2004

	<u>Operating Fund</u>	<u>Single Family Mortgage Program Fund</u>	<u>Multi-Family Mortgage Program Fund</u>	<u>General Obligation Fund</u>	<u>Total</u>
Operating revenues:					
Interest income:					
Mortgage and construction loans receivable	\$ 1,039,714	21,925,796	8,339,718	—	31,305,228
Investments	13,890	10,624,291	1,471,644	253	12,110,078
Fee income:					
Multi-Family Mortgage Programs	601,403	—	35,273	—	636,676
Single Family Mortgage Programs	37,980	1,925	—	—	39,905
Miscellaneous income	66,521	—	—	—	66,521
Total operating revenues	<u>1,759,508</u>	<u>32,552,012</u>	<u>9,846,635</u>	<u>253</u>	<u>44,158,408</u>
Operating expenses:					
Financing costs, including interest and amortization of premium, discount, and costs of issuance	654,077	28,297,903	6,766,980	952	35,719,912
Mortgage service and contract administration fees	—	957,357	—	—	957,357
Salaries and benefits	2,465,759	—	—	—	2,465,759
Operating expenses	1,201,838	—	—	—	1,201,838
Professional fees	141,876	—	—	—	141,876
Trustee and assignee fees	221,439	—	—	—	221,439
Property disposition and loan loss expenses (recoveries)	(15,119)	(336,695)	—	—	(351,814)
Loss on bond redemptions	—	1,708,391	13,804	—	1,722,195
Total operating expenses	<u>4,669,870</u>	<u>30,626,956</u>	<u>6,780,784</u>	<u>952</u>	<u>42,078,562</u>
Operating income (loss)	<u>(2,910,362)</u>	<u>1,925,056</u>	<u>3,065,851</u>	<u>(699)</u>	<u>2,079,846</u>
Non-operating revenues:					
Net depreciation in fair value of investments	—	(2,003,598)	(201,285)	—	(2,204,883)
Income (loss) before transfers	<u>(2,910,362)</u>	<u>(78,542)</u>	<u>2,864,566</u>	<u>(699)</u>	<u>(125,037)</u>
Net transfers to (from) operating fund	3,396,112	(2,951,843)	(283,837)	(160,432)	—
Increase (decrease) in net assets	485,750	(3,030,385)	2,580,729	(161,131)	(125,037)
Net assets at beginning of year	9,458,484	44,351,321	23,492,212	161,131	77,463,148
Net assets at end of year	<u>\$ 9,944,234</u>	<u>41,320,936</u>	<u>26,072,941</u>	<u>—</u>	<u>77,338,111</u>

See accompanying notes to financial statements.

**VERMONT HOUSING FINANCE AGENCY**

Statement of Cash Flows

Year ended June 30, 2004

	<b>Operating Fund</b>	<b>Single Family Mortgage Program Fund</b>	<b>Multi-Family Mortgage Program Fund</b>	<b>General Obligation Fund</b>	<b>Total</b>
Cash flows from operating activities:					
Interest collections on mortgages	\$ 965,309	22,140,320	8,366,809	—	31,472,438
Principal collections on mortgages	8,194,291	93,104,554	12,914,008	—	114,212,853
Purchases of mortgages	(13,145,765)	(69,119,829)	(22,017,786)	—	(104,283,380)
Fee income and other receipts	1,121,125	1,925	99,028	—	1,222,078
Salaries and benefit payments	(2,465,759)	—	—	—	(2,465,759)
Operating expense payments	(1,437,354)	—	(63,756)	—	(1,501,110)
Service fee and other payments	(37,808)	(916,769)	—	—	(954,577)
Net cash provided by (used for) operating activities	<u>(6,805,961)</u>	<u>45,210,201</u>	<u>(701,697)</u>	<u>—</u>	<u>37,702,543</u>
Cash flows from investing activities:					
Purchases of investments	—	(21,027,521)	(1,040,488)	—	(22,068,009)
Proceeds from sales and maturities of investments	—	49,295,785	1,165,118	—	50,460,903
Interest received on investments	13,928	11,885,232	1,354,054	265	13,253,479
Decrease in escrowed cash deposits	(133,819)	—	(485,018)	—	(618,837)
Cost of real estate owned	—	(665,001)	—	—	(665,001)
Proceeds from sales of real estate owned	—	2,150,914	302,552	—	2,453,466
Payment to IRS to rebate excess earnings	—	(1,077,295)	—	—	(1,077,295)
Payment of prepaid origination fees	—	(1,007,658)	—	—	(1,007,658)
Net cash provided by (used for) investing activities	<u>(119,891)</u>	<u>39,554,456</u>	<u>1,296,218</u>	<u>265</u>	<u>40,731,048</u>
Cash flows from noncapital financing activities:					
Net proceeds from issuance of bonds payable	—	63,717,357	34,568,213	—	98,285,570
Principal payments on bonds	(6,792)	(170,165,000)	(12,678,551)	—	(182,850,343)
Interest payments on bonds and notes payable	(614,438)	(28,532,236)	(6,227,835)	(28,276)	(35,402,785)
Proceeds from issuance of notes payable	2,777,740	20,000,000	—	—	22,777,740
Repayment of notes payable	(116,781)	(33,000,000)	—	(1,950,000)	(35,066,781)
Payments to bond insurers	—	(358,393)	(28,179)	—	(386,572)
Payments for cost of issuance	—	(481,424)	(57,795)	—	(539,219)
Transfers from (to) other programs	5,446,828	(4,244,179)	(3,163,780)	1,961,131	—
Net cash provided by (used for) noncapital financing activities	<u>7,486,557</u>	<u>(153,063,875)</u>	<u>12,412,073</u>	<u>(17,145)</u>	<u>(133,182,390)</u>
Cash flows from capital financing activities:					
Purchase of office furniture and fixtures	(129,383)	—	—	—	(129,383)
Net cash used for capital financing activities	<u>(129,383)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(129,383)</u>
Net increase (decrease) in cash and cash equivalents	431,322	(68,299,218)	13,006,594	(16,880)	(54,878,182)
Cash and cash equivalents at beginning of year	4,824,140	164,287,775	22,405,091	24,199	191,541,205
Cash and cash equivalents at end of year	\$ <u>5,255,462</u>	<u>95,988,557</u>	<u>35,411,685</u>	<u>7,319</u>	<u>136,663,023</u>

Supplemental non-cash operating/investing activities:

Mortgage loans receivable converted to real estate owned amounted to \$1,387,895 in fiscal year 2004.

Supplemental non-cash financing activities:

The fair value of investments decreased \$4,724,756 in fiscal year 2004.

VERMONT HOUSING FINANCE AGENCY

Statement of Cash Flows  
Year ended June 30, 2004

	Operating Fund	Single Family Mortgage Program Fund	Multi-Family Mortgage Program Fund	General Obligation Fund	Total
Reconciliation of cash flows from operating activities:					
Operating income (loss)	\$ (2,910,362)	1,925,056	3,065,851	(699)	2,079,846
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	171,210	—	—	—	171,210
Amortization of (discounts) premiums on bonds and notes payable	—	94,612	84,648	(1,248)	178,012
Amortization of deferred income	(4,952)	—	121,596	—	116,644
Amortization of deferred origination fees	—	207,608	—	—	207,608
Losses on loans and real estate owned	—	25,459	—	—	25,459
Provision for loan losses	—	(362,153)	—	—	(362,153)
Loss on bond redemptions	—	1,708,391	13,804	—	1,722,195
Investment interest income	(13,966)	(10,624,291)	(1,471,644)	(253)	(12,110,154)
Bond and note interest expense	614,476	27,324,658	6,560,733	2,200	34,502,067
Changes in assets and liabilities:					
Decrease in other assets	—	42,224	—	—	42,224
Decrease (increase) in accrued interest receivable	(75,276)	1,475,465	(10,647)	—	1,389,542
Decrease (increase) in mortgage loans receivable	(4,951,474)	25,667,746	(9,103,777)	—	11,612,495
Increase in other receivables and prepaid expenses	(48,561)	(456,216)	68,368	—	(436,409)
Decrease (increase) in deferred mortgage origination fees, net	401,934	(519,333)	—	—	(117,399)
Increase in deferred loan origination fees	—	—	(30,629)	—	(30,629)
Increase (decrease) in accounts payable	11,010	(1,299,025)	—	—	(1,288,015)
Net cash provided by (used for) operating activities	\$ (6,805,961)	45,210,201	(701,697)	—	37,702,543

See accompanying notes to financial statements.

# VERMONT HOUSING FINANCE AGENCY

## Notes to Financial Statements

June 30, 2004

### (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 not a component unit of the State of Vermont, but is classified as a related organization of the State of Vermont. The State of Vermont appoints a majority of the Agency's board of commissioners but the State of Vermont is not financially accountable for the Agency.

The Agency is empowered by the Act and subsequent amendments to issue bonds and notes in an amount not to exceed \$900,000,000 outstanding at any one time. 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 until the bonds and notes are fully discharged.

#### (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 Multi-family Mortgage Program fund, General Obligation fund, and the unrestricted Operating fund of the Agency.

##### (i) **Operating Fund**

This fund derives its revenue principally from fees and interest from mortgage lenders and mortgagors and investment income. Operating expenses of the Agency are paid from this 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 and the Single Family Housing Bond Resolution adopted in September 1990. Monies from these programs have been used by the Agency to purchase, mortgage loans on single family residential housing units for persons and families of low and moderate income in Vermont.

## VERMONT HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2004

#### (iii) 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, and various Individualized Taxable and Tax Exempt Bond Resolutions adopted between December 1985 and September 2003. 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.

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 trusteed accounts. As of June 30, 2004, reserve requirements totaled \$20,152,135 for the Single Family Mortgage Programs and \$10,228,345 for the Multi-Family Mortgage Programs. Amounts actually held in trusteed accounts as of June 30, 2004 exceeded the required balances in all cases.

#### (iv) General Obligation Fund

This fund has been established under the General Obligation Indenture adopted in January 2002, and is being used to provide construction loans to multi-family projects.

### (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, the Agency has elected not to apply Statements of Financial Accounting Standards issued after November 30, 1989.

#### (b) Net Assets

In accordance with GASB Statement No. 34 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 construction or improvement of those assets.
- **Restricted:** Net assets subject to externally imposed stipulations.
- **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.

## VERMONT HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2004

**(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.

**(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, 2004, the allowance for loan losses totaled \$494,630, relating to Single Family mortgages.

**(e) Investments**

The Agency follows the provisions of GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. GASB No. 31 requires investments to be 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 investments are based upon quoted market prices.

**(f) 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 generally forty years for the building and five years for furniture and fixtures, using the straight-line method.

**(g) Costs of Bond Issuance and Discount or Premium**

Cost of bond issuances, which represents underwriters' fees and legal 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.

**(h) Income Tax Status**

The Agency is exempt from Federal and state income taxes.

**(i) 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.

**(j) 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 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.

## VERMONT HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2004

At June 30, 2004, the estimated present value of future arbitrage rebates in the Single Family Mortgage Program fund was \$1,301,168, all of which was recognized as a reduction in investment income in fiscal year 2004. There are no other arbitrage liabilities to be rebated in the other fund groups at June 30, 2004.

**(k) *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 in the Operating Fund is recorded as nonoperating revenue while investment income in all other funds is recorded as operating.

**(l) *Use of Estimates***

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**(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 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.

Cash and cash equivalents are defined to be actual cash or investments which have original maturities of three months or less. This category also includes mortgage payments which are in transit to the trustee to be invested in collateralized repurchase agreements. 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. At June 30, 2004 gross unrealized gains and gross unrealized losses pertaining to investments amounted to \$2,969,382 and \$0, respectively.

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2004

***Cash and Cash Equivalents***

The Agency's cash and cash equivalents at June 30, 2004 are categorized below to give an indication of the level of custodial credit risk assumed. Category 1 includes deposits insured by Federal depository insurance. Category 2 includes deposits collateralized with securities held by the pledging financial institution or the Agency's trustee and registered in the Agency's name. Category 3 represents uncollateralized or uninsured deposits.

	<u>Category</u>			<u>Bank</u>	<u>Book</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>balance</u>	<u>balance</u>
Cash	\$ 1,203,310	760,617	2,114,932	4,078,859	3,890,023
Investment agreements with financial institutions	—	69,805,296	—	69,805,296	69,805,296
Money market accounts	—	25,015,883	—	25,015,883	25,015,883
	<u>\$ 1,203,310</u>	<u>95,581,796</u>	<u>2,114,932</u>	98,900,038	98,711,202
Investment agreements with insurance companies				<u>37,951,821</u>	<u>37,951,821</u>
				<u>\$ 136,851,859</u>	<u>136,663,023</u>

The money market accounts are invested in a portfolio of short-term U.S. Treasury obligations.

Investment agreements are structured for both short-term and long-term use in connection with the Agency's Single Family Mortgage programs. Financial institutions providing the agreements have been rated by Standard and Poor's Corporation and Moody's Investors Service, Inc. at debt ratings of A or higher.

***Investments***

The Agency reports all investments at fair value in the statements of net assets. The net decrease in the fair value of investments, including both realized and unrealized gains and losses, is recognized as revenue in the statements of revenues, expenses and changes in net assets. Fair values of investments are based upon quoted market prices.

The disclosure of fair value amounts by type of investment are classified in the following three categories of credit risk:

1. Insured, registered, or securities held by the Agency or its agent in the Agency's name.
2. Uninsured and unregistered, with securities held by counterparty's Trust Department or agent in the Agency's name.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the Agency's name.

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2004

An analysis of the Agency's investments by category at June 30, 2004 is as follows:

2004	Category			Fair value
	1	2	3	
Investments:				
U.S. Treasury and Government agency securities	\$ —	14,329,446	—	14,329,446
Certificate of deposit	100,000	—	—	100,000
Investment agreements	—	44,273,298	—	44,273,298
Common stock	822,519	—	—	822,519
Total investments	\$ 922,519	58,602,744	—	59,525,263

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

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

Single Family mortgage loans earn interest at annual rates ranging predominantly from 5.30% to 10.5%. Mortgage payments are received monthly by the Agency from which a service fee is generally retained by servicing lenders and the subservicer.

At June 30, 2004, approximately 73% of the Single Family mortgage portfolios consist of primary insured mortgages.

Conventional mortgage loans, not requiring primary insurance, are limited to 75% of the appraised value of the property.

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

Multi-Family mortgage loans receivable earn interest at annual rates ranging predominantly from 2% to 14%, and are collateralized by first mortgage liens on all real and personal property of the mortgaged premises. As of June 30, 2004, \$251,060 of the Multi-Family mortgage loans receivable under the Multi-Family Housing Program were financed from funds transferred from the Agency's Operating Fund, which includes interest for the initial three-year period during which no payments were required to be made.

**(5) Real Estate Owned**

Real estate owned at June 30, 2004 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, 2004, the valuation allowance totaled \$67,131.

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2004

**(6) 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.

**(7) 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 prices ranging from 100% to 103% of par value.

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2004

Outstanding bonds payable at June 30, 2004 are as follows:

A. Single Family Mortgage Program Fund:

Home Mortgage Purchase Program:

1989 Series B, maturing 2006 to 2009, interest at 7.45%	\$ <u>2,685,000</u>
---	---------------------

Housing Program:

Series 1, maturing 2004 to 2025, interest at 6.5% to 6.8%	2,975,000
Series 3, maturing 2004 to 2025, interest at 6.2% to 6.875%	615,000
Series 4, maturing 2004 to 2025, interest at 6.0% to 6.40%	20,100,000
Series 5, maturing 2004 to 2027, interest at 5.9% to 7.0%	10,230,000
Series 6, maturing 2004 to 2031, interest at 5.3% to 6.35%	20,660,000
Series 7, maturing 2004 to 2031, interest at 5.3% to 6.3%	20,275,000
Series 8, maturing in 2031, interest at 6.05%	12,245,000
Series 9, maturing 2004 to 2037, interest at 4.15% to 6.0%	35,065,000
Series 10, maturing 2004 to 2030, interest at 3.9% to 5.25%	19,665,000
Series 11, maturing 2004 to 2030, interest at 4.6% to 5.95%	10,630,000
Series 12, maturing 2004 to 2031, interest at 5.0% to 6.4%	12,590,000
Series 13, maturing 2004 to 2031, interest at 4.7% to 5.97%	20,705,000
Series 14, maturing 2005 to 2032, interest at 3.9% to 6.05%	24,470,000
Series 15, maturing 2004 to 2032, interest at 3.45% to 5.7%	27,945,000
Series 16, maturing 2005 to 2033, interest at 3.625% to 5.6%	65,520,000
Series 17, maturing 2005 to 2034, interest at 1.85% to 5.1%	32,000,000
Series 18, maturing 2005 to 2034, interest at 1.4% to 4.95%	32,120,000
Series 19, maturing 2006 to 2035, interest at 1.75% to 5.0%	<u>31,500,000</u>

Total Housing Program	<u>399,310,000</u>
-----------------------	--------------------

Total Single Family Mortgage Program Fund	<u>401,995,000</u>
---	--------------------

B. Multi-Family Mortgage Program Fund:

Mortgage Program:

1999 Series A, maturing 2005 to 2020, interest at 4.15% to 5.125%	4,335,000
1999 Series B, maturing 2005 to 2030, interest at 4.75% to 6.0%	3,925,000
1999 Series C and D, maturing 2005 to 2021, interest at 4.65% to 5.8%	27,595,000
2000 Series A, maturing in 2039, interest at 5.9%	5,175,000
2000 Series B, C, and D, maturing 2014 to 2031, interest at 5.65% to 6.7%	3,185,000
2001 Series A, B, C, and D, maturing 2031 to 2032, interest at 5.4% to 7.27%	5,670,000
2002 Series A and B, maturing 2004 to 2039, interest at 2.8% to 7.2%	12,185,000
2003 Series A, maturing 2023 to 2043, interest at 5.05% to 5.25%	4,380,000
2003 Series C, maturing 2005 to 2034, interest at 1.6% to 5.1%	10,955,000
2004 Series A, B, and C, maturing 2006 to 2046, interest at 2.1% to 6.3%	<u>14,755,000</u>

Total Mortgage Program	<u>92,160,000</u>
------------------------	-------------------

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2004

Housing Program:	
1995 Series A, maturing 2005 to 2014, interest at 5.45% to 6.15%	\$ 15,345,000
1997 Series A, maturing 2005 to 2029, interest at 4.7% to 5.75%	<u>5,610,000</u>
Total Housing Program	<u>20,955,000</u>
Direct Placement Programs:	
Canterbury Inn Housing Program:	
1986 Series A, maturing 2004 to 2011, interest at 4.95% through 2004, variable to maturity at rate of 95% of Eleven General Obligation Bond Index	250,000
Northgate Housing Program:	
Eleven series of bonds, issued December 1989, maturing 2004 to 2031, interest at 7.085% to 9.23%	7,232,919
Highgate Housing Program:	
Two series of bonds, issued May 1991, maturing 2004 to 2031, interest at 6.45% to 7.741%	1,751,158
St. Johnsbury Housing Development Bond:	
Taxable bond, issued August 1990, maturing 2004 to 2005, interest at 7.5%	358,700
Pine Meadow Development Bond:	
Taxable bond, issued July 1991, maturing 2005 to 2016, interest at 6%	415,900
Whitney Hill Housing Development Bond:	
Taxable bond, issued January 1992, maturing 2004 to 2007, interest at 9%	1,103,600
Kilbourn Mobile Home Park Bond:	
Taxable bond, issued May 1996, maturing 2004 to 2016, interest at 7.5%	222,300
Black River Overlook Housing Project Bond:	
Taxable bond, issued September 1998, maturing 2004 to 2018, interest at 8%	298,670
Mountainview St. Jay Housing Bond:	
Issued October 2003, maturing 2005, interest at 2.75%	2,123,000
Wall Street Housing Bond:	
Issued October 2003, maturing November 2004, interest at 2.45%	1,650,000
64 School Street Bond:	
Issued November 2003, maturing October 2004, interest at 2.4%	1,100,000

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2004

Smallest City Housing Bond:		
Issued December 2003, maturing December 2004, interest at 2.5%	\$	2,230,000
Rutland West Housing Bond:		
Issued December 2003, maturing August 2004, interest at 2.3%		522,500
Whetstone Housing Bond:		
Issued February 2004, maturing November 2004, interest at 2.5%		1,350,000
Colonial West Bond:		
Issued May 2004, maturing 2005, interest at 2.75%		<u>225,000</u>
Total Direct Placement Programs		<u>20,833,747</u>
Total Multi-Family Mortgage Program Fund		<u>133,948,747</u>
 C. Operating Fund:		
Northgate Housing Site Acquisition, issued December 1989, maturing 2004 to 2031, interest at 7%		<u>586,445</u>
Total bonds payable	\$	<u><u>536,530,192</u></u>

Future maturities on bonds payable (in thousands) as of June 30, 2004 are as follows:

	<b>Multi-Family Mortgage Programs</b>					
	<b>Mortgage Program</b>		<b>Housing Program</b>		<b>Direct Placement Programs</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
Year ending June 30:						
2005	\$ 1,935	4,745	1,455	1,231	9,563	1,058
2006	2,250	4,913	1,540	1,152	747	819
2007	2,500	4,805	1,630	1,068	1,525	772
2008	2,675	4,684	1,730	976	452	643
2009	2,795	4,554	1,845	871	490	608
2010-2014	15,845	20,451	8,500	2,601	1,709	2,571
2015-2019	18,245	15,789	1,020	1,107	2,172	1,985
2020-2024	13,295	10,798	1,380	780	1,323	1,284
2025-2029	10,945	7,832	1,855	332	1,751	753
2030-2034	12,130	4,546	—	—	1,102	113
2035-2039	7,820	1,587	—	—	—	—
2040-2044	1,385	240	—	—	—	—
2045-2047	340	28	—	—	—	—
Total	\$ <u>92,160</u>	<u>84,972</u>	<u>20,955</u>	<u>10,118</u>	<u>20,834</u>	<u>10,606</u>

## VERMONT HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2004

	<u>Single Family Mortgage Programs</u>								
	<u>Home Mortgage</u>		<u>Housing Program</u>		<u>Operating Fund</u>		<u>Agency Total</u>		
	<u>Purchase Program</u>								
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
Year ending June30:									
2005	\$	—	200	6,405	21,034	7	41	19,365	28,309
2006		295	200	6,505	20,714	8	41	11,345	27,839
2007		620	167	7,355	20,443	8	40	13,638	27,295
2008		665	120	7,610	20,135	9	39	13,141	26,597
2009		725	69	7,985	19,804	10	39	13,850	25,945
2010-2014		380	14	48,145	92,908	59	183	74,638	118,728
2015-2019		—	—	68,965	77,835	82	159	90,484	96,875
2020-2024		—	—	83,555	56,917	115	126	99,668	69,905
2025-2029		—	—	96,240	31,644	162	80	110,953	40,641
2030-2034		—	—	64,445	7,824	126	18	77,803	12,501
2035-2039		—	—	2,100	93	—	—	9,920	1,680
2040-2044		—	—	—	—	—	—	1,385	240
2045-2047		—	—	—	—	—	—	340	28
Total	\$	<u>2,685</u>	<u>770</u>	<u>399,310</u>	<u>369,351</u>	<u>586</u>	<u>766</u>	<u>536,530</u>	<u>476,583</u>

A one-year historical summary of bonds payable, discount on bonds, and premium on bonds (in thousands) for the year ended June 30, 2004 is as follows:

	<u>Balance at</u>		<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u>	<u>Amounts due</u>	<u>Amounts due</u>
	<u>June 30, 2003</u>				<u>June 30, 2004</u>	<u>within one year</u>	<u>thereafter</u>
Bonds payable	\$ 620,850		98,530	(182,850)	536,530	19,365	517,165
Discount on bonds	(6,030)		(835)	1,475	(5,390)	(260)	(5,130)
Premium on bonds	1,343		686	(199)	1,830	67	1,763

The Agency has entered into two interest rate swap agreements with counterparties in connection with the Single Family Housing Bonds on Series 17A Variable Rate Demand Bonds ("Series 17") as of April 2003, and the Series 19B Auction Rate Certificates ("Series 19") as of April 2004, each for a notional amount of \$8 million. Under the swap agreements, the swap provider pays the trustee an amount based on 70% of the London InterBank Offered Rate (LIBOR) and the Bond Market Association Index (BMA) plus .15%, respectively, and the Agency pays the swap providers an amount at a fixed rate of interest (3.182% and 3.492%, respectively). The Series 17 and Series 19 swaps terminate in May 2019 and November 2027, respectively.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Agency exposes itself to credit and market 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 counterparties whose credit rating is higher than Aa. 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.

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2004

The fair values of the Series 17 and Series 19 interest rate swaps were \$21,649 and \$62,264, respectively, at June 30, 2004.

**(8) 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, 2004, the Agency had outstanding borrowings totaling \$6,542,101 which are secured by investments and mortgage loans with a carrying value of \$7,930,550. These borrowings have interest rates ranging from 6.32% to 7.66% and mature through November 2018.

The Agency is operating under two unsecured variable rate lines of credit that total \$14,500,000 with Banknorth N.A. expiring in March 2006. At June 30, 2004, there was a \$7,529,213 balance outstanding at 2.14%. The lines of credit were entered into in order to fund working capital requirements, and to be used for specific construction projects financed by the Agency.

The Agency has a \$100,000 note payable to the Vermont Community Foundation at a rate of 4%, maturing in November 2006.

As of June 30, 2004, the Agency had \$20,000,000 of notes payable in the Single Family Housing Program fund. These notes have interest rates of 1.55% and mature in November 2005. The proceeds of these notes are invested in guaranteed investment contracts.

Future maturities on notes payable (in thousands) as of June 30, 2004 are as follows:

	Operating Fund		Single Family Housing Program		Agency totals	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:						
2005	\$ 157	623	—	310	157	933
2006	7,671	568	20,000	155	27,671	723
2007	252	440	—	—	252	440
2008	163	427	—	—	163	427
2009	176	415	—	—	176	415
2010-2014	1,294	1,805	—	—	1,294	1,805
2015-2019	4,458	881	—	—	4,458	881
Total	\$ 14,171	5,159	20,000	465	34,171	5,624

A one year historical summary of the line of credit borrowings, notes payable, and premium on notes payable (in thousands) for the year ended June 30, 2004 is as follows:

	Balance at June 30, 2003	Increases	Decreases	Balance at June 30, 2004	Amounts due within one year	Amounts due thereafter
Long-term obligations:						
Notes payable	\$ 41,709	20,000	(35,067)	26,642	157	26,485
Premium on notes payable	82	—	(82)	—	—	—

## VERMONT HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2004

#### **(9) 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, to cover loan losses incurred and to provide collateral for credit agreements.

#### **(10) Pension Plan**

Upon meeting certain eligibility requirements, the Agency's employees are eligible to participate in a noncontributory defined contribution pension plan in accordance with the provisions of the Employee Retirement Income Security Act of 1974. For the year ended June 30, 2004, the Agency had a total payroll of \$1,833,168, of which \$1,765,651 was covered by the pension plan. The Agency's contribution to the Plan is 10% of the covered payroll. Employees vest in benefits under the Plan at 20% per year of service and are fully vested after five years. Forfeitures of nonvested benefits by terminated employees reduce the Agency's contribution. The cost of the plan was \$130,925 for the year ended June 30, 2004, and is included in salaries and benefits expense.

#### **(11) Loss on Bond Redemptions**

During the year ended June 30, 2004, the Agency redeemed \$26,325,000 of its Single Family Home Mortgage Purchase Program Bonds, \$136,275,000 of its Single-Family Housing Program Bonds, and \$1,025,000 of its Multi-Family Mortgage Bonds. Loss on bond redemptions of \$1,722,195 was recognized which represents the unamortized balance of bond discount and cost of issuance expenses associated with the bonds retired.

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2004

The following is a summary of the redeemed bonds:

<b>Single Family Home Mortgage Purchase Program</b>	<b>Single Family Housing Program</b>
1989 Series B	Series 3
\$ 26,325,000	\$ 10,100,000
	Series 5
	8,285,000
	Series 6
	14,250,000
	Series 7
	12,700,000
	Series 8
	13,030,000
	Series 9
	17,895,000
	Series 10
	8,645,000
	Series 11
	9,525,000
	Series 12
	12,170,000
	Series 13
	10,425,000
	Series 14
	5,750,000
	Series 15
	4,030,000
	Series 16
	9,470,000
	\$ 136,275,000
<b>Multi-Family Mortgage Bonds</b>	
2003 Series B	
\$ 1,025,000	

**(12) Commitments and Contingencies**

At June 30, 2004, the Agency had outstanding commitments in the amount of \$4,320,824 to purchase or finance mortgage loans pursuant to its normal funding from bond proceeds. In addition, there were commitments of \$12,395,713 for general loans or future program subsidy purposes.

Under the Single Family Mortgage Programs, the Agency has obtained surety bonds in the amount of \$18,195,790 expiring between 2025 and 2037, which satisfy the requirements of certain bond resolutions.

**(13) 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 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 commercial insurance coverage. In addition, the Agency's bylaws provide for the indemnification of Agency commissioners and officers by the Agency. The Agency has not purchased commercial insurance coverage or otherwise reserved assets of the Agency in connection with this indemnification requirement.

## VERMONT HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2004

#### **(14) Subsequent Events**

In August 2004, the Agency issued \$31,825,000 of bonds under the Single Family Housing Bonds, Series 20A and 20B. The bond proceeds will be used to purchase single family mortgages. The Agency has obtained surety bonds in the amount of \$1,324,887 expiring in 2035 in connection with these bonds.

In August 2004, the Agency issued \$2,810,000 of bonds under the Multi-Family Mortgage Bond Program, 2004 Series D. The bond proceeds will be used to finance multi-family projects.

In July 2004, the Agency issued conduit debt of \$23,605,000 Student Housing Facilities Revenue Bonds (West Block University of Vermont Apartments Project), Series 2004A and 2004B. These bonds are limited obligations of the Agency payable only from amounts received from the borrower. The Agency assumes no responsibility for repayment. These bonds, therefore, will not appear as liabilities in the Agency's financial statements. The proceeds will be used to finance a 312-bed student housing facility.