



VERMONT HOUSING FINANCE AGENCY

Financial Statements and
Required Supplementary Information

June 30, 2005

(With Independent Auditors' Report Thereon)

VERMONT HOUSING FINANCE AGENCY

Table of Contents

	Page
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



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Independent Auditors' Report

To the Honorable Randolph D. Brock
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 as of and for the year ended June 30, 2005, 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. 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 on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. 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 respective financial position of the business-type activities and each major fund of the Vermont Housing Finance Agency as of June 30, 2005, and the respective 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 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 2, 2005

VERMONT HOUSING FINANCE AGENCY

Management's Discussion and Analysis

June 30, 2005

(Unaudited)

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 fiscal year ended June 30, 2005. 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 sales of tax-exempt and taxable bonds and notes, advances from lending institutions, and from the administration of federal programs. Since September 1974, the Agency has issued \$2.156 billion aggregate principal amount of bonds, notes and line of credit borrowings, of which \$615 million was outstanding as of June 30, 2005, 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 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 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, 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 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.

VERMONT HOUSING FINANCE AGENCY

Management's Discussion and Analysis

June 30, 2005

(Unaudited)

The following table summarizes the net assets of the Agency as of June 30, 2005 with comparative data from the prior fiscal year.

	<u>2005</u>	<u>2004</u>	<u>Percentage Change 2005-2004</u>
Assets			
Cash and investments	\$ 219,070,095	196,188,286	11.7
Loans receivable, net	465,703,753	445,322,983	4.6
Other assets	16,804,699	15,467,645	8.6
Total assets	<u>701,578,547</u>	<u>656,978,914</u>	<u>6.8</u>
Liabilities			
Bonds and notes payable	615,216,124	570,701,506	7.8
Other liabilities	9,971,242	8,939,297	11.5
Total liabilities	<u>625,187,366</u>	<u>579,640,803</u>	<u>7.9</u>
Net Assets			
Invested in capital assets	1,771,187	1,865,308	(5.0)
Restricted:			
Bond and other requirements	60,073,671	58,209,435	3.2
Excess yield loans	8,094,406	9,184,442	(11.9)
Unrestricted	6,451,917	8,078,926	(20.1)
Total net assets	<u>\$ 76,391,181</u>	<u>77,338,111</u>	<u>(1.2)</u>

Total assets increased by \$44.6 million or 6.8% for the year ended June 30, 2005 when compared to the year ended June 30, 2004, primarily as a result of:

- Cash and investments increased by \$22.9 million, or 11.7%. This represents bond proceeds held in acquisition funds at year end awaiting the purchase of mortgages, and the increase in fair value of investments.
- Total Mortgage and Construction Loans Receivable increased by \$20.4 million, or 4.6%. Loan originations increased by \$8.1 million, or 7.8% over the prior fiscal year. Fiscal year 2005 saw a slowdown in the level of prepayments, with the amount of principal collections decreasing by \$26.1 million, or 22.9% from the prior year.
- Included in restricted net assets is approximately \$8.1 million of Multi-Family mortgages which were funded by excess interest income received (excess yield) from mortgages related to the Agency's 1995 and 1999 Multi-Family bond issues. The excess yield represents an amount received in excess of that permitted by federal tax laws. To be in compliance with such tax laws, the Agency estimates that it may be required to forgive or restructure up to \$9.5 million of its loans, prior to the final maturity of bonds in these series.

VERMONT HOUSING FINANCE AGENCY

Management's Discussion and Analysis

June 30, 2005

(Unaudited)

The following table summarizes the change in mortgage loans receivable for the year ended June 30, 2005, with comparative data from the prior fiscal year:

	2005	2004	Percentage Change 2005-2004
Beginning balance	\$ 445,322,983	456,935,208	(2.5)
Mortgage loan originations	112,439,021	104,283,380	7.8
Principal collections	(88,001,075)	(114,145,557)	(22.9)
Loans transferred to REO status	(866,246)	(1,387,895)	(37.6)
Loan loss provision	(3,190,930)	(362,153)	781.1
Ending balance	\$ 465,703,753	445,322,983	4.6

Total liabilities of the Agency increased by \$45.5 million, or 7.9% for the year ended June 30, 2005 when compared to the year ended June 30, 2004, primarily as a net result of:

- Three new bond series of Single Family Housing Bonds were issued totaling \$120.7 million in bonds and \$30 million in notes. These proceeds were used to finance single family mortgage purchases and to refund \$18.1 million in Housing Program Series 4 bonds.
- Two new bond series of Multi-Family Mortgage Bonds were issued totaling \$7.3 million. These proceeds were used to finance the construction of twelve different projects.
- Six Multi-Family loan program construction projects totaling \$9.3 million were financed with notes payable from lending institutions.
- \$96 million of Single Family Housing Bonds were redeemed prior to maturity as a result of mortgage loan prepayments received.
- All bond issues are rated by Moody's Investors Service and Standard and Poor's with a minimum stand alone rating of A. Many Agency bond issues carry bond insurance, which upgrades the bond rating to AAA.
 - Moody's Investors Service upgraded the rating of the Single Family Housing Bond program to Aa3 from A1 during the fiscal year.
 - Moody's Investors Service also affirmed the general obligation rating of A2 for the Agency.

Summary 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. Additional costs have been recorded to provide for future loan losses.

VERMONT HOUSING FINANCE AGENCY

Management's Discussion and Analysis

June 30, 2005

(Unaudited)

The following summarizes the changes for the year ended June 30, 2005 with comparative data from the prior fiscal year.

	<u>2005</u>	<u>2004</u>	Percentage Change 2005-2004
Operating Revenues			
Interest on loans	\$ 29,288,490	31,305,228	(6.4)
Interest on investments	8,330,204	12,110,078	(31.2)
Fee income	601,441	676,581	(11.1)
Other revenue	71,036	66,521	6.8
Total operating revenues	<u>38,291,171</u>	<u>44,158,408</u>	<u>(13.3)</u>
Operating Expenses			
Financing costs	31,426,098	35,719,912	(12.0)
Operational expenses	3,955,248	4,030,912	(1.9)
Mortgage servicing	910,963	957,357	(4.8)
Loan loss provision	3,199,607	(351,814)	(1,009.5)
Loss on bond redemptions	716,710	1,722,195	(58.4)
Total operating expenses	<u>40,208,626</u>	<u>42,078,562</u>	<u>(4.4)</u>
Operating income (loss)	<u>(1,917,455)</u>	<u>2,079,846</u>	<u>(192.2)</u>
Non-Operating Revenues			
Net appreciation (depreciation) in fair value of investments:			
Unrealized gain (loss) on investments	1,036,206	(4,724,756)	(121.9)
Realized gain (loss) on sale of investments	(65,681)	2,519,873	(102.6)
Net appreciation (depreciation) in fair value of investments	<u>970,525</u>	<u>(2,204,883)</u>	<u>(144.0)</u>
Decrease in net assets	(946,930)	(125,037)	657.3
Net assets at beginning of year	<u>77,338,111</u>	<u>77,463,148</u>	<u>(0.2)</u>
Net assets at end of year	<u>\$ 76,391,181</u>	<u>77,338,111</u>	<u>(1.2)</u>

VERMONT HOUSING FINANCE AGENCY

Management's Discussion and Analysis

June 30, 2005

(Unaudited)

For the year ended June 30, 2005 net assets decreased \$946,930, compared to a decrease of \$125,037 for the prior year. The \$821,893 change in net assets when comparing 2005 to 2004, was primarily the result of the following:

- Total operating revenues decreased \$5.9 million or 13.3% in fiscal year 2005, due to the effects of a mortgage loan portfolio shifting to generally lower rates following years of accelerated prepayments. These are mitigated by the related reduction of \$4.3 million, or 12% in financing and mortgage servicing expenses, which reflect correspondingly lower borrowing costs.
- The establishment of general loan loss reserves in the operating and multi-family bond funds decreased net assets by \$2.0 million and \$1.5 million, respectively. There have been no specific write offs against these reserves.
- The loss on bond redemptions reduced net assets by \$716,710 thousand in fiscal year 2005 compared to \$1.7 million in the prior year.
- Net appreciation in the fair value of investments accounted for an increase in net assets of \$970,525 thousand in fiscal year 2005, compared to net depreciation of \$2.2 million in the prior year.

The Agency budgets its day-to-day operating costs and related miscellaneous income items in its Operating Fund. The budget is approved prior to the beginning of each fiscal year by the Agency's Board of Commissioners. For fiscal year 2005 actual Operating Fund revenue was \$1.7 million compared to \$1.9 million budgeted. Actual expenses incurred, exclusive of the provision for loan losses, were \$4.8 million compared to \$5.0 million budgeted. Establishment of the \$2.0 million loan loss provision, and net fund transfers in, at the budgeted amount of \$3.4 million, resulted in an overall decrease in Operating Fund net assets of \$1.7 million.

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 Finance Agency, 164 St. Paul Street, Burlington, VT 05401 or visit our website at www.vhfa.org.

VERMONT HOUSING FINANCE AGENCY

Statement of Net Assets

June 30, 2005

	<u>Operating Fund</u>	<u>Single Family Mortgage Program Fund</u>	<u>Multi-Family Mortgage Program Fund</u>	<u>Total</u>
Assets:				
Current assets:				
Cash and cash equivalents	\$ 6,873,911	—	—	6,873,911
Investments	100,000	—	—	100,000
Accrued interest receivable:				
Mortgage and notes	1,180,870	1,529,290	483,097	3,193,257
Investments	7,935	—	—	7,935
Current portion of mortgage loans receivable	302,484	6,652,678	4,274,572	11,229,734
Current receivables and prepaid expenses	691,786	767,904	908,749	2,368,439
Interfund receivables (payables)	2,562,612	2,958,677	(5,521,289)	—
Total current assets	<u>11,719,598</u>	<u>11,908,549</u>	<u>145,129</u>	<u>23,773,276</u>
Noncurrent assets:				
Restricted cash and cash equivalents	—	91,510,580	31,885,396	123,395,976
Restricted investments	—	80,836,951	7,863,257	88,700,208
Noncurrent portion of mortgage loans receivable, net	15,180,224	324,948,502	114,345,293	454,474,019
Accrued investment interest receivable	—	925,360	473,508	1,398,868
Deferred costs of bond issuance, net	—	2,309,042	1,189,234	3,498,276
Deferred mortgage origination fees, net	—	1,666,202	—	1,666,202
Noncurrent receivables and prepaid expenses:	—	2,673,348	—	2,673,348
Land	775,000	—	—	775,000
Building (less accumulated depreciation of \$262,719)	738,115	—	—	738,115
Office furniture and fixtures (less accumulated depreciation of \$1,068,738)	258,072	—	—	258,072
Other assets and real estate owned	—	227,187	—	227,187
Total noncurrent assets	<u>16,951,411</u>	<u>505,097,172</u>	<u>155,756,688</u>	<u>677,805,271</u>
Total assets	<u>\$ 28,671,009</u>	<u>517,005,721</u>	<u>155,901,817</u>	<u>701,578,547</u>
Liabilities:				
Current liabilities:				
Line of credit borrowings	\$ 9,328,446	—	—	9,328,446
Current notes payable	141,231	35,000,000	—	35,141,231
Current bonds payable	7,776	6,255,000	4,559,662	10,822,438
Current deferred loan origination fees	122,258	—	—	122,258
Accounts payable	537,590	1,165,184	267,749	1,970,523
Escrowed cash deposits	3,018,828	4,968	912,133	3,935,929
Accrued interest payable	75,488	3,523,174	2,456,915	6,055,577
Total current liabilities	<u>13,231,617</u>	<u>45,948,326</u>	<u>8,196,459</u>	<u>67,376,402</u>
Noncurrent liabilities:				
Noncurrent bonds payable	571,402	414,400,000	123,602,234	538,573,636
Noncurrent notes payable	6,350,373	15,000,000	—	21,350,373
Unamortized premium (discount) on bonds, net	—	(892,822)	(1,696,695)	(2,589,517)
Arbitrage rebate payable	—	181,959	—	181,959
Noncurrent deferred loan origination fees	294,513	—	—	294,513
Total noncurrent liabilities	<u>7,216,288</u>	<u>428,689,137</u>	<u>121,905,539</u>	<u>557,810,964</u>
Total liabilities	<u>20,447,905</u>	<u>474,637,463</u>	<u>130,101,998</u>	<u>625,187,366</u>
Net assets:				
Invested in capital assets	1,771,187	—	—	1,771,187
Restricted	—	42,368,258	25,799,819	68,168,077
Unrestricted	6,451,917	—	—	6,451,917
Total net assets	<u>8,223,104</u>	<u>42,368,258</u>	<u>25,799,819</u>	<u>76,391,181</u>
Total liabilities and net assets	<u>\$ 28,671,009</u>	<u>517,005,721</u>	<u>155,901,817</u>	<u>701,578,547</u>

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2005

	Operating Fund	Single Family Mortgage Program Fund	Multi-Family Mortgage Program Fund	Total
Operating revenues:				
Interest income:				
Mortgage and construction				
loans receivable	\$ 1,038,627	20,900,070	7,349,793	29,288,490
Investments	36,949	6,622,876	1,670,379	8,330,204
Fee income:				
Multi-Family Mortgage Programs	526,520	—	45,653	572,173
Single Family Mortgage Programs	26,819	2,449	—	29,268
Miscellaneous income	71,036	—	—	71,036
Total operating revenues	<u>1,699,951</u>	<u>27,525,395</u>	<u>9,065,825</u>	<u>38,291,171</u>
Operating expenses:				
Financing costs	825,717	23,201,347	7,399,034	31,426,098
Mortgage service and contract				
administration fees	—	910,963	—	910,963
Salaries and benefits	2,518,983	—	—	2,518,983
Operating expenses	1,107,284	—	—	1,107,284
Professional fees	141,881	—	—	141,881
Trustee and assignee fees	187,100	—	—	187,100
Loss on bond redemptions	—	716,710	—	716,710
Property disposition and loan loss				
expenses (recoveries)	2,008,243	(308,636)	1,500,000	3,199,607
Total operating expenses	<u>6,789,208</u>	<u>24,520,384</u>	<u>8,899,034</u>	<u>40,208,626</u>
Operating income (loss)	<u>(5,089,257)</u>	<u>3,005,011</u>	<u>166,791</u>	<u>(1,917,455)</u>
Non-operating revenues:				
Net appreciation (depreciation) in fair				
value of investments	—	1,110,438	(139,913)	970,525
Income (loss) before transfers	<u>(5,089,257)</u>	<u>4,115,449</u>	<u>26,878</u>	<u>(946,930)</u>
Transfers to (from) operating fund	<u>3,368,127</u>	<u>(3,068,127)</u>	<u>(300,000)</u>	<u>—</u>
Increase (decrease) in net assets	<u>(1,721,130)</u>	<u>1,047,322</u>	<u>(273,122)</u>	<u>(946,930)</u>
Net assets at beginning of year	<u>9,944,234</u>	<u>41,320,936</u>	<u>26,072,941</u>	<u>77,338,111</u>
Net assets at end of year	<u>\$ 8,223,104</u>	<u>42,368,258</u>	<u>25,799,819</u>	<u>76,391,181</u>

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

Statement of Cash Flows

Year ended June 30, 2005

	Operating Fund	Single Family Mortgage Program Fund	Multi-Family Mortgage Program Fund	General Obligation Fund	Total
Cash flows from operating activities:					
Interest collections on mortgages	\$ 1,000,248	20,918,425	7,294,249	—	29,212,922
Principal collections on mortgages	13,397,990	57,793,245	16,809,840	—	88,001,075
Purchases of mortgages	(11,268,547)	(78,966,538)	(22,203,936)	—	(112,439,021)
Purchases of down payment assist mortgages	—	(586,157)	—	—	(586,157)
Fee income and other receipts	624,375	—	109,409	—	733,784
Salaries and benefits payments	(2,518,983)	—	—	—	(2,518,983)
Operating expense payments	(1,291,022)	—	—	—	(1,291,022)
Service fee and other payments	—	(926,124)	(63,756)	—	(989,880)
Net cash provided by (used for) operating activities	(55,939)	(1,767,149)	1,945,806	—	122,718
Cash flows from investing activities:					
Purchases of investments	—	(34,133,128)	—	—	(34,133,128)
Proceeds from sales and maturities investments	—	4,240,861	1,982,147	—	6,223,008
Interest received on investments	31,502	6,627,199	1,358,179	4	8,016,884
Increase (decrease) in escrowed cash deposits	(142,273)	1,525	674,105	—	533,357
Cost of real estate owned	—	(850,031)	—	—	(850,031)
Proceeds from sales of real estate owned	—	1,797,380	—	—	1,797,380
Payment to IRS to rebate excess earnings	—	(1,131,091)	—	—	(1,131,091)
Net cash provided by (used for) investing activities	(110,771)	(23,447,285)	4,014,431	4	(19,543,621)
Cash flows from noncapital financing activities:					
Proceeds from line of credit borrowings	12,775,445	—	—	—	12,775,445
Net proceeds from issuance of bonds payable	—	121,120,923	8,020,000	—	129,140,923
Principal payments on bonds	(7,267)	(102,065,000)	(13,806,851)	—	(115,879,118)
Interest payments on bonds and notes payable	(814,029)	(22,101,164)	(7,124,234)	—	(30,039,427)
Repayment of line of credit borrowings	(10,976,213)	—	—	—	(10,976,213)
Proceeds from issuance of notes payable	—	30,000,000	—	—	30,000,000
Repayment of notes payable	(150,496)	—	—	—	(150,496)
Payments to bond insurers	—	(436,038)	(20,180)	—	(456,218)
Payments for cost of issuance	(534,088)	(772,836)	(5,000)	—	(1,311,924)
Transfers from (to) other funds	1,567,012	(5,009,428)	3,449,739	(7,323)	—
Net cash provided by (used for) noncapital financing activities	1,860,364	20,736,457	(9,486,526)	(7,323)	13,102,972
Cash flows from capital financing activities:					
Purchase of office furniture and fixtures	(75,205)	—	—	—	(75,205)
Net cash used for capital financing activities	(75,205)	—	—	—	(75,205)
Net increase (decrease) in cash and cash equivalents	1,618,449	(4,477,977)	(3,526,289)	(7,319)	(6,393,136)
Cash and cash equivalents at beginning of year	5,255,462	95,988,557	35,411,685	7,319	136,663,023
Cash and cash equivalents at end of year	\$ 6,873,911	91,510,580	31,885,396	—	130,269,887

VERMONT HOUSING FINANCE AGENCY

Statement of Cash Flows

Year ended June 30, 2005

	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)	\$ (5,089,257)	3,005,011	166,791	—	(1,917,455)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	169,326	—	—	—	169,326
Amortization of (discounts) premiums on bonds and notes payable	—	34,697	127,018	—	161,715
Amortization of costs of bond issuance and other fees	—	844,800	62,469	—	907,269
Losses on loans and real estate owned	—	(11,611)	—	—	(11,611)
Provision for loan losses	2,000,000	(309,070)	1,500,000	—	3,190,930
Loss on bond redemptions	—	716,710	—	—	716,710
Investment interest income	(36,949)	(6,622,886)	(1,670,379)	(4)	(8,330,218)
Bond and note interest expense	825,717	21,913,976	7,190,417	—	29,930,110
Bond insurance expense	—	419,485	19,130	—	438,615
Prepaid cost of issuance	534,088	—	—	—	534,088
Changes in assets and liabilities:					
Decrease (increase) in mortgage loans receivable	2,129,443	(20,615,600)	(5,394,096)	—	(23,880,253)
Decrease (increase) in other assets	—	421,504	(19,848)	—	401,656
Decrease (increase) in accrued interest receivable	(39,288)	22,678	(35,696)	4	(52,302)
Increase in other receivables and prepaid expenses	(534,939)	(1,255,873)	—	—	(1,790,812)
Increase in deferred mortgage origination fees, net	(33,750)	(330,970)	—	—	(364,720)
Increase in accounts payable	19,670	—	—	—	19,670
Net cash provided by (used for) operating activities	\$ <u>(55,939)</u>	<u>(1,767,149)</u>	<u>1,945,806</u>	<u>—</u>	<u>122,718</u>

Supplemental noncash operating/investing activities:

Mortgage loans receivable converted to real estate owned amounted to \$866,246 in fiscal year 2005.

Supplemental noncash financing activities:

The fair value of investments increased \$970,525 in fiscal year 2005.

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2005

(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.

(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.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2005

(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.

(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.

(iv) General Obligation Fund

This fund was established under the General Obligation Indenture adopted in January 2002, to provide construction loans to multi-family projects. This fund is no longer utilized as of June 30, 2005.

(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 trusteed accounts. As of June 30, 2005, reserve requirements totaled \$16,468,580 for the Single Family Mortgage Programs and \$10,697,638 for the Multi-Family Mortgage Programs. Amounts actually held in trusteed accounts as of June 30, 2005 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, 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:

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2005

- **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.
- **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, 2005, the allowance for loan losses totaled \$185,560, relating to Single Family mortgage loans, \$1,500,000 for Multi-Family mortgage loans and \$2,000,000 from operating fund mortgage loans.

Included in Multi-Family mortgage loans receivable is approximately \$9.5 million of mortgages funded by excess yield. The Agency estimates that it may be required to forgive or restructure up to this amount of its loans prior to the final maturity of the related 1995 and 1999 bond issues, in order to be in compliance with Federal tax laws. A portion of the net assets has been restricted for this purpose.

(e) ***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. 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.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2005

(g) Amortization

Cost of bond issuances, 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.

(h) Income Tax Status

The Agency is exempt from Federal and state income taxes.

(i) Deferred Loan Origination Fees and Costs

In accordance with SFAS No. 91, *Accounting for Nonrefundable Fees and Cost Associated with Origination or Acquiring Loans and Initial Direct Costs of Leases*, 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.

At June 30, 2005, the estimated present value of future arbitrage rebates in the Single Family Mortgage Program fund was \$181,959, all of which was recognized as a reduction in investment income in fiscal year 2005. There are no other arbitrage liabilities to be rebated in the other fund groups at June 30, 2005.

(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 is recorded as operating revenue in all funds.

(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.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2005

(m) Accounting and Reporting Changes

During 2005, the Agency adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement addressed common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, the Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in the Statement should also be disclosed. The impact of changes on the financial statements and notes include a modification of disclosures related to cash and cash equivalents deposits and investments. While the Statement had an impact on the presentation of the notes to the financial statements, there was no impact on net assets.

(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.

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. All bonds are issued by U.S. Government agencies such as FNMA, FHLMC and FHLB, and have implied credit ratings of AAA.

(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, 2005, were \$6.0 million. Of these, \$3.4 million were exposed to custodial credit risk as uninsured and uncollateralized.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2005

(b) Investments

The Agency's investments at June 30, 2005 are presented below.

Investments by Type

June 30, 2005

(Expressed in thousands)

<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>
Guaranteed investment agreements	\$ 74,132	50,000	—	2,303	21,829
U.S. Treasury securities	10,067	—	—	—	10,067
Government agency securities	3,339	251	579	469	2,040
Common stock	1,162	—	—	—	—
	<u>\$ 88,700</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 5% of the Agency's investments are invested in guaranteed investment contracts; AIG and Bayerische Landesbank. These investments are 22.96% and 10.55%, respectively, of the Agency's total investments. The Agency does not have a formal investment policy that limits 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 does not have a formal policy that limits 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 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, 2005, approximately 82% 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.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2005

(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, 2005, \$220,897 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, 2005 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, 2005, the valuation allowance totaled \$45,330.

(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, 2005

Outstanding bonds payable at June 30, 2005 are as follows (in thousands):

A. Single Family Mortgage Program Fund:	
Home Mortgage Purchase Program:	
1989 Series B, maturing 2006 to 2009, interest at 7.45%	\$ <u>2,685</u>
Housing Program:	
Series 5, maturing 2005 to 2027, interest at 6.0% to 7.0%	7,595
Series 6, maturing 2005 to 2031, interest at 5.4% to 6.35%	15,520
Series 7, maturing 2005 to 2031, interest at 5.4% to 6.3%	14,685
Series 8, maturing in 2031, interest at 6.05%	8,145
Series 9, maturing 2005 to 2037, interest at 4.25% to 6.0%	25,000
Series 10, maturing 2005 to 2030, interest at 4.05% to 5.25%	15,020
Series 11, maturing 2005 to 2030, interest at 4.7% to 5.95%	6,685
Series 12, maturing 2005 to 2031, interest at 5.05% to 6.4%	7,565
Series 13, maturing 2005 to 2031, interest at 4.75% to 5.97%	13,665
Series 14, maturing 2006 to 2032, interest at 4.0% to 6.05%	18,685
Series 15, maturing 2005 to 2032, interest at 3.7% to 5.7%	21,250
Series 16, maturing 2006 to 2033, interest at 4.0% to 5.6%	51,730
Series 17, maturing 2006 to 2034, interest at 2.2% to 5.1%	29,480
Series 18, maturing 2006 to 2034, interest at 1.8% to 4.95%	30,720
Series 19, maturing 2006 to 2035, interest at 1.75% to 5.0%	31,500
Series 20, maturing 2006 to 2035, interest at 2.45% to 5.5%	31,825
Series 21, maturing 2006 to 2035, interest at 1.85% to 5.0%	46,940
Series 22, maturing 2006 to 2035, interest at 2.95% to 5.0%	41,960
Total Housing Program	<u>417,970</u>
Total Single Family Mortgage Program Fund	<u>420,655</u>
B. Multi-Family Mortgage Program Fund:	
Mortgage Program:	
1999 Series A, maturing 2006 to 2020, interest at 4.25% to 5.125%	4,130
1999 Series B, maturing 2006 to 2030, interest at 4.9% to 6.0%	3,850
1999 Series C and D, maturing 2006 to 2021, interest at 4.8% to 5.8%	26,585
2000 Series A, maturing in 2039, interest at 5.9%	5,130
2000 Series B, C, and D, maturing 2014 to 2031, interest at 5.65% to 6.7%	3,005
2001 Series A, B, C, and D, maturing 2031 to 2032, interest at 5.4% to 7.27%	5,520
2002 Series A and B, maturing 2005 to 2039, interest at 3.4% to 7.2%	12,025
2003 Series A, maturing 2023 to 2043, interest at 5.05% to 5.25%	4,330
2003 Series C, maturing 2006 to 2034, interest at 2.0% to 5.1%	10,900
2004 Series A, B, and C, maturing 2006 to 2046, interest at 2.1% to 6.3%	14,750
2004 Series D, maturing 2024 to 2039, interest at 4.65% to 4.9%	2,810
2005 Series A, B, C, and D, maturing 2015 to 2035, interest at 4.4% to 5.75%	4,450
Total Mortgage Program	<u>97,485</u>

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2005

Housing Program:	
1995 Series A, maturing 2006 to 2014, interest at 5.55% to 6.15%	\$ 13,995
1997 Series A, maturing 2006 to 2029, interest at 4.8% to 5.75%	5,505
Total	19,500
Direct Placement Programs:	
Canterbury Inn Housing Program:	
1986 Series A, maturing 2005 to 2011, interest at 4.15% through 2007, variable to maturity at rate of 95% of Eleven General Obligation Bond Index	228
Northgate Housing Program:	
Eleven series of bonds, issued December 1989, maturing 2005 to 2031, interest at 7.085% to 9.23%	6,989
Highgate Housing Program:	
Two series of bonds, issued May 1991, maturing 2005 to 2031, interest at 6.45% to 7.741%	1,633
St. Johnsbury Housing Development Bond:	
Taxable bond, issued August 1990, maturing 2005, interest at 7.5%	351
Pine Meadow Development Bond:	
Taxable bond, issued July 1991, maturing 2006 to 2016, interest at 6%	394
Whitney Hill Housing Development Bond:	
Taxable bond, issued January 1992, maturing 2005 to 2007, interest at 9%	1,081
Kilbourn Mobile Home Park Bond:	
Taxable bond, issued May 1996, maturing 2005 to 2016, interest at 7.5%	217
Black River Overlook Housing Project Bond:	
Taxable bond, issued September 1998, maturing 2005 to 2018, interest at 8%	284
Total Direct Placement Programs	11,177
Total Multi-Family Mortgage Program Fund	128,162
C. Operating Fund:	
Northgate Housing Site Acquisition, issued December 1989, maturing 2005* to 2031, interest at 7%	579
Total bonds payable	\$ 549,396

* All calendar year 2005 maturities on bonds payable occur after June 30, 2005.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2005

Future maturities on bonds payable as of June 30, 2005 are as follows (in thousands):

	Multi-Family Mortgage Programs					
	Mortgage Program		Housing Program		Direct Placement Programs	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:						
2006	\$ 2,280	5,216	1,540	1,152	739	811
2007	2,600	5,155	1,630	1,068	1,503	764
2008	2,785	5,030	1,730	976	452	638
2009	2,915	4,894	1,845	871	490	602
2010	3,060	4,749	1,960	759	446	566
2011-2015	16,955	21,172	6,720	2,084	1,455	2,437
2016-2020	19,705	16,155	1,085	1,050	2,223	1,819
2021-2025	12,490	11,241	1,465	701	1,318	1,186
2026-2030	12,965	8,066	1,525	225	1,880	624
2031-2035	13,840	4,312	—	—	671	43
2036-2040	6,755	1,251	—	—	—	—
2041-2045	925	176	—	—	—	—
2046-2047	210	12	—	—	—	—
Total	\$ 97,485	87,429	19,500	8,886	11,177	9,490

	Single Family Mortgage Programs							
	Home Mortgage Purchase Program		Housing Program		Operating Fund		Agency Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:								
2006	\$ 295	200	5,960	20,518	8	41	10,822	27,938
2007	620	167	8,415	20,470	8	40	14,776	27,664
2008	665	120	8,710	20,156	9	39	14,351	26,959
2009	725	69	9,240	19,810	10	39	15,225	26,285
2010	380	14	9,280	19,422	10	38	15,136	25,548
2011-2015	—	—	54,330	90,160	63	179	79,523	116,032
2016-2020	—	—	71,145	74,847	88	154	94,246	94,025
2021-2025	—	—	82,685	55,025	123	118	98,081	68,271
2026-2030	—	—	96,640	31,690	173	69	113,183	40,674
2031-2035	—	—	69,895	8,164	87	9	84,493	12,528
2036-2040	—	—	1,670	48	—	—	8,425	1,299
2041-2045	—	—	—	—	—	—	925	176
2046-2047	—	—	—	—	—	—	210	12
Total	\$ 2,685	570	417,970	360,310	579	726	549,396	467,411

A summary of bonds payable, discount on bonds, and premium on bonds and arbitrage rebate payable activity for the year ended June 30, 2005 is as follows (in thousands):

	Balance at June 30, 2004	Increases	Decreases	Balance at June 30, 2005	Amounts due within one year	Amounts due thereafter
Bonds payable	\$ 536,530	128,745	(115,879)	549,396	10,822	538,574
Discount on bonds	(5,390)	(935)	883	(5,442)	(292)	(5,150)
Premium on bonds	1,830	1,331	(309)	2,852	103	2,749
Arbitrage rebate payable	1,131	182	(1,131)	182	—	182

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2005

The Agency has entered into five interest rate swap agreements with counterparties in connection with the Single Family Housing Bonds Variable Rate Demand Bonds (VRDB) and Auction Rate Certificates (ARC). Under the swap agreement, the swap provider pays the Agency an amount based on the London InterBank Offered Rate (LIBOR) or the Bond Market Association Index (BMA), and the Agency pays the swap provider an amount at a fixed rate of interest.

A summary of the agreements follows:

<u>Issue</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 June 30, 2005</u>
Series 17	VRDB	5/1/2004	\$ 8,000,000	5/1/2019	—	3.182%	70% of LIBOR	\$ (126,514)
Series 19	ARC	4/8/2004	8,000,000	11/1/2027	—	3.492%	BMA + .15% (to 5/1/06) 70% of LIBOR (after 5/1/06)	(269,616)
Series 20	ARC	8/12/2004	8,000,000	5/1/2028	11/1/2014	4.166%	BMA + .10% (to 5/1/06) 70% of LIBOR (after 5/1/06)	(666,479)
Series 21	VRDB	11/30/2004	11,700,000	5/1/2029	—	3.682%	BMA + .10% (if LIBOR ≤ 3.00%) 68% of LIBOR (if LIBOR > 3.00%)	(98,725)
Series 22	VRDB	6/8/2005	13,800,000	11/1/2034	5/1/2012	3.731%	65% of LIBOR	(533,034)
								\$ (1,694,368)

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.

(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, 2005, the Agency had outstanding borrowings totaling \$6,391,604 which are secured by investments and mortgage loans with a carrying value of \$7,738,285. These borrowings have interest rates ranging from 6.32% to 7.66% and mature through November 2018.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2005

The Agency is operating under unsecured variable rate lines of credit that total \$47,500,000 with lending institutions expiring in 2007. At June 30, 2005, there was a \$9,328,446 balance outstanding at 3.17% to 3.625%. 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, 2005, the Agency had \$50,000,000 of notes payable in the Single Family Housing Program fund. These notes have interest rates ranging from 1.55% to 3.35% and mature between November 2005 and April 2007. The proceeds of these notes are invested in guaranteed investment contracts.

Future maturities on notes payable and line of credit borrowings as of June 30, 2005 are as follows (in thousands):

	Operating Fund		Single Family Housing Program		Agency totals	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:						
2006	\$ 9,470	653	35,000	1,129	44,470	1,782
2007	252	440	15,000	497	15,252	937
2008	163	427	—	—	163	427
2009	175	415	—	—	175	415
2010	313	401	—	—	313	401
2011-2015	1,246	1,714	—	—	1,246	1,714
2016-2020	4,201	606	—	—	4,201	606
Total	\$ 15,820	4,656	50,000	1,626	65,820	6,282

A summary of line of credit borrowings and notes payable activity for the year ended June 30, 2005 is as follows (in thousands):

	Balance at June 30, 2004	Increases	Decreases	Balance at June 30, 2005	Amounts due within one year	Amounts due thereafter
Line of credit borrowings	\$ 7,529	12,775	(10,976)	9,328	9,328	—
Notes payable	26,642	30,000	(150)	56,492	35,142	21,350

(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.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2005

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, 2005, the Agency had a total payroll of \$1,933,066, of which \$1,803,326 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 \$180,333 for the year ended June 30, 2005, and is included in salaries and benefits expense.

(11) Loss on Bond Redemptions

During the year ended June 30, 2005, the Agency redeemed \$96,075,000 of its Single-Family Housing Program Bonds. Loss on bond redemptions of \$716,710 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, 2005

The following is a summary of the redeemed bonds (in thousands):

	Single Family Housing Program
Series 1	\$ 2,950
Series 3	610
Series 4	19,480
Series 5	2,425
Series 6	4,915
Series 7	5,300
Series 8	3,900
Series 9	9,650
Series 10	4,270
Series 11	3,755
Series 12	4,845
Series 13	6,740
Series 14	5,430
Series 15	6,235
Series 16	12,410
Series 17	1,960
Series 18	1,200
	<hr/> <hr/> \$ 96,075

(12) Commitments and Contingencies

At June 30, 2005, the Agency had outstanding commitments in the amount of \$16,463,647 to purchase or finance mortgage loans pursuant to its normal funding from bond proceeds. In addition, there were commitments of \$7,023,000 for general loans or future program subsidy purposes.

Under the Single Family Mortgage Programs, the Agency has obtained surety bonds in the amount of \$22,467,047 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.