VERMONT HOUSING FINANCE AGENCY

Financial Statements and
Required Supplementary Information

June 30, 2007

(With Independent Auditors' Report Thereon)

VERMONT HOUSING FINANCE AGENCY

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities and each major fund of the Vermont Housing Finance Agency as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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 U.S. generally accepted accounting principles. 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

October 17, 2007

Vt. Reg. No. 92-0000241
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This section of the Vermont Housing Finance Agency's (the Agency) annual Financial Report presents management's discussion and analysis of its financial performance and significant changes in financial position for the fiscal year ended June 30, 2007. 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, and advances from lending institutions. Since September 1974, the Agency has issued $2.3 billion aggregate principal amount of bonds, notes and line of credit borrowings, of which $744.8 million was outstanding as of June 30, 2007, 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, 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 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.

(Continued)

The following table summarizes the net assets of the Agency as of June 30, 2007 with comparative data from the prior fiscal year.

Assets		2007	2006	Percentage change 2007-2006
Cash and investments	$	195,605,193	182,245,067	7.3%
Loans receivable, net		623,559,508	529,001,950	17.9
Other assets		19,468,097	17,002,028	14.5
Total assets		838,632,798	728,249,045	15.2
Liabilities				
Bonds and notes payable		744,782,327	640,810,463	16.2
Other liabilities		11,770,746	8,855,993	32.9
Total liabilities		756,553,073	649,666,456	16.5
Net Assets				
Invested in capital assets		1,625,755	1,690,221	(3.8)
Restricted:				
Bond and other requirements		65,006,102	61,297,505	6.1
Excess yield loans		7,970,043	8,349,379	(4.5)
Unrestricted		7,477,825	7,245,484	3.2
Total net assets	$	82,079,725	78,582,589	4.5%

Total assets increased by $110.4 million or 15.2% for the year ended June 30, 2007 when compared to the year ended June 30, 2006, primarily as a result of:

- Cash and investments increased by $13.4 million, or 7.3%. 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 $94.6 million, or 17.9%. Loan originations increased by $31 million, or 21.8% over the prior fiscal year. In fiscal year 2007 principal collections decreased by $154,000, or 0.2% from the prior year.
- Included in restricted net assets is approximately $7.9 million of Multi-Family mortgages (net of $1.5 million of loan loss reserves) 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 mortgage interest earned in excess of that permitted by federal tax laws. Subsequent to this year end, the loans related to the Agency's 1995 issuance were refunded as part of the new bond issuance for the 2007 Series A and Series B. To be in compliance with the aforementioned tax laws, the Agency estimates that it may eventually forgive a portion of these loans, prior to the final maturity of bonds in

(Continued)

these series. The Agency believes its reserves are adequate to cover any risk and will continue to analyze and adjust its reserves in accordance with the level of risk.

The following table summarizes the change in mortgage loans receivable for the year ended June 30, 2007, with comparative data from the prior fiscal year:

		2007	2006	Percentage change 2007-2006
Beginning balance	$	529,001,950	465,703,753	13.6%
Mortgage loan originations		173,649,434	142,604,540	21.8
Principal collections		(78,305,453)	(78,460,206)	—
Loans transferred to REO status		(804,336)	(931,632)	(13.7)
Loan loss provision		17,914	85,495	(79.0)
Ending balance	$	623,559,509	529,001,950	17.9%

The following table summarizes the changes in bonds, notes payable, and lines of credit borrowings for the fiscal year are as follows (in thousands):

		Balance at June 30, 2006	Increases	Decreases	Balance at June 30, 2007
Bonds payable	$	574,785	152,110	(63,662)	663,233
Notes payable		51,757	20,000	(15,190)	56,567
Lines of credit borrowings		14,268	30,795	(20,081)	24,982
Total debt	$	640,810	202,905	(98,933)	744,782

Total liabilities of the Agency increased by $106.9 million, or 16.5% for the year ended June 30, 2007 when compared to the year ended June 30, 2006, primarily as a net result of:

- Three new bond series of Single Family Housing Bonds were issued totaling $148 million in bonds and $20 million in notes. These proceeds were used to finance single family mortgage purchases and to refund $11 million in Housing Program Series 7 bonds.
- Total principal payments on bonds were $63.7 million including $49.4 million of Single Family Housing Bonds that were redeemed prior to maturity as a result of mortgage loan prepayments received.
- Twenty-two Multi-Family loan program construction projects were funded with $30.8 million of notes payable from lending institutions.
- $4.1 million of direct placement bonds were issued to provide permanent financing for 10 Multi-family projects.

(Continued)

- With the exception of direct placement bonds, 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.

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.

The following summarizes the changes for the year ended June 30, 2007 with comparative data from the prior fiscal year.

		2007	2006	Percentage change 2007-2006
Operating revenues:				
Interest on loans	$	36,078,654	31,413,101	14.9%
Interest on investments		10,436,069	8,772,556	19.0
Fee income		853,495	765,665	11.5
Other revenue		64,378	61,823	4.1
Total operating revenues		47,432,596	41,013,145	15.7
Operating expenses:				
Financing costs		37,979,645	32,469,627	17.0
Operational expenses		4,310,066	4,192,544	2.8
Mortgage servicing		1,155,529	973,310	18.7
Loan losses		921,371	(101,943)	(1,003.8)
(Gain) Loss on bond redemptions		(132,514)	169,833	(178.0)
Total operating expenses		44,234,097	37,703,371	17.3
Operating income		3,198,499	3,309,774	(3.4)
Nonoperating revenues:				
Net appreciation (depreciation) in fair value of investments		298,637	(1,118,366)	(126.7)
Increase in net assets		3,497,136	2,191,408	59.6
Net assets at beginning of year		78,582,589	76,391,181	2.9
Net assets at end of year	$	82,079,725	78,582,589	4.5%

(Continued)

For the year ended June 30, 2007, net assets increased $3,497,136, compared to a increase of $2,191,408 for the prior year. The $1,305,728 change in net assets when comparing 2007 to 2006, was primarily the result of the following:

- Total operating revenues increased $6.4 million or 15.7% in fiscal year 2007, due to the effects of a mortgage loan portfolio shifting to slightly higher rates following years of decreasing interest rates.
- There were no changes to the provision for operating or multi-family loan loss reserves in fiscal year 2007 compared with provisions of $2.7 million and $1.5 million, respectively, in fiscal year 2006. The provision for loan loss reserves has been reviewed by management and the Audit/Risk Committee of the Agency's Board of Commissioners and deemed to be adequate.
- The gain on bond redemptions increased net assets by $132 thousand in fiscal year 2007 compared to a loss on bond redemptions causing the reduction in net assets of $170 thousand in the prior year.
- Net appreciation in the fair value of investments accounted for an increase in net assets of $299 thousand in fiscal year 2007, compared to net depreciation of $1.1 million in the prior year.

The Agency budgets its day-to-day operating costs and related income (net of deferred loan origination costs and fees) in its Operating Fund. The operating budget is prepared by staff and reviewed and approved prior to the start of each fiscal year by the Agency's Board of Commissioners.

For fiscal year 2007, the Agency projected an Operating Fund budget surplus of $86.6 thousand and achieved an actual budget surplus of $174.7 thousand as a result of positive income and expense variances of $7.7 thousand and $80.4 thousand, respectively.

The addition of net deferred loan origination costs and fees of $6.9 thousand in fiscal year 2007 to the actual budget surplus of $174.7 thousand results in an increase in Operating Fund net assets for fiscal year 2007 of $167.8 thousand compared with the prior period of $712 thousand.

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, 2007

Assets	Operating Fund	Single Family Mortgage Program Fund	Multi-Family Mortgage Program Fund	Total
Cash and cash equivalents	$ 6,394,892	—	—	6,394,892
Investments	100,000	20,000,000	—	20,100,000
Accrued interest receivable:				
Mortgage and notes	1,183,229	1,939,288	416,165	3,538,682
Investments	18,075	1,473,308	533,194	2,024,577
Current portion of mortgage loans receivable	271,740	8,905,552	4,236,379	13,413,671
Current costs of bond issuance expense	—	110,210	68,165	178,375
Current Portion of deferred mortgage originating fees, net	—	379,259	—	379,259
Current receivables and prepaid expenses	149,813	1,392,854	154,843	1,697,510
Interfund receivables (payables)	971,793	2,954,976	(3,926,769)	—
Total current assets	9,089,542	37,155,447	1,481,977	47,726,966
Noncurrent assets:				
Restricted cash and cash equivalents	—	97,635,782	35,066,076	132,701,858
Restricted investments	—	28,635,410	7,773,033	36,408,443
Noncurrent portion of mortgage loans receivable, net	12,061,466	466,525,452	131,558,919	610,145,837
Deferred costs of bond issuance, net	—	2,970,915	1,094,568	4,065,483
Deferred mortgage origination fees, net	—	1,642,966	—	1,642,966
Noncurrent receivables and prepaid expenses	227,017	3,822,999	153,974	4,203,990
Land	775,000	—	—	775,000
Building (less accumulated depreciation of $312,760)	688,073	—	—	688,073
Office furniture and fixtures (less accumulated depreciation of $1,305,257)	162,682	—	—	162,682
Other assets and real estate owned	—	111,500	—	111,500
Total noncurrent assets	13,914,238	601,345,024	175,646,570	790,905,832
Total assets	$ 23,003,780	638,500,471	177,128,547	838,632,798
Liabilities and Fund Balances				
Liabilities:				
Current liabilities:				
Current notes payable and lines of credit	$ 3,356,971	50,000,000	19,773,151	73,130,122
Current bonds payable	8,903	10,450,000	4,981,986	15,440,889
Current unamortized bond and note premium (discount), net	—	(35,687)	(127,689)	(163,376)
Current deferred loan origination fees	203,324	—	—	203,324
Accounts payable	478,937	1,287,620	99,088	1,865,645
Escrowed cash deposits	2,579,068	—	—	2,579,068
Accrued interest payable	59,587	4,931,262	2,318,871	7,309,720
Total current liabilities	6,686,790	66,633,195	27,045,407	100,365,392
Noncurrent liabilities:				
Noncurrent notes payable	6,404,684	—	2,014,049	8,418,733
Noncurrent bonds payable	554,179	527,110,000	120,128,404	647,792,583
Unamortized bond and note premium (discount), net	—	(19,909)	(1,335,443)	(1,355,352)
Arbitrage rebate payable	—	1,077,170	—	1,077,170
Noncurrent deferred mortgage loan origination fees	254,547	—	—	254,547
Total noncurrent liabilities	7,213,410	528,167,261	120,807,010	656,187,681
Total liabilities	13,900,200	594,800,456	147,852,417	756,553,073
Net assets:				
Invested in capital assets	1,625,755	—	—	1,625,755
Restricted	—	43,700,015	29,276,130	72,976,145
Unrestricted	7,477,825	—	—	7,477,825
Total net assets	9,103,580	43,700,015	29,276,130	82,079,725
Total liabilities and net assets	$ 23,003,780	638,500,471	177,128,547	838,632,798

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2007

	Operating Fund	Single Family Mortgage Program Fund	Multi-Family Mortgage Program Fund	Total
Operating revenues:				
Interest income:				
Mortgage and construction loans	$ 839,807	26,192,616	9,046,231	36,078,654
Investments	139,092	8,237,930	2,059,047	10,436,069
Fee income:				
Multi-Family Mortgage Programs	753,703	—	80,558	834,261
Single Family Mortgage Programs	15,019	4,215	—	19,234
Miscellaneous income	64,378	—	—	64,378
Total operating revenues	1,811,999	34,434,761	11,185,836	47,432,596
Operating expenses:				
Financing costs, including interest and amortization of premium, discount and costs of issuance, net	735,807	29,212,974	8,030,864	37,979,645
Mortgage service and contract administration fees	—	1,155,529	—	1,155,529
Salaries and benefits	2,925,560	—	—	2,925,560
Operating expenses	1,142,519	—	—	1,142,519
Professional fees	105,445	—	—	105,445
Trustee and assignee fees	136,542	—	—	136,542
Gain on bond redemptions	—	(132,514)	—	(132,514)
Property disposition and loan loss recoveries	159,716	(42,681)	804,336	921,371
Total operating expenses	5,205,589	30,193,308	8,835,200	44,234,097
Operating income (loss)	(3,393,590)	4,241,453	2,350,636	3,198,499
Non-operating revenues:				
Net appreciation (depreciation) in fair value of investments	—	307,267	(8,630)	298,637
Income (loss) before transfers	(3,393,590)	4,548,720	2,342,006	3,497,136
Net transfers to (from) operating fund	3,561,465	(2,750,732)	(810,733)	—
Increase in net assets	167,875	1,797,988	1,531,273	3,497,136
Net assets at beginning of year	8,935,705	41,902,027	27,744,857	78,582,589
Net assets at end of year	$ 9,103,580	43,700,015	29,276,130	82,079,725

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

Statement of Cash Flows

Year ended June 30, 2007

	Operating Fund	Single Family Mortgage Program Fund	Multi-Family Mortgage Program Fund	Total
Cash flows from operating activities:				
Interest collections on mortgages	$ 857,249	25,752,845	8,911,461	35,521,555
Principal collections on mortgages	4,025,892	43,376,827	30,902,734	78,305,453
Purchases of mortgages	(3,487,798)	(133,911,008)	(36,250,628)	(173,649,434)
Purchases of down payment assist mortgages	—	(490,283)	—	(490,283)
Principal collections on down payment assistance mortgages	—	26,238	—	26,238
Fee income and other receipts	833,100	4,215	129,433	966,748
Salaries and benefits payments	(2,925,560)	—	—	(2,925,560)
Operating expense payments	(1,325,170)	—	—	(1,325,170)
Mortgage service fee payments	—	(1,136,391)	—	(1,136,391)
Proceeds for foreclosed property loss	(159,716)	—	—	(159,716)
Payment on prepaid origination fees	—	(2,103,304)	—	(2,103,304)
Service fee and other payments	—	—	(63,756)	(63,756)
Net cash provided by (used for) operating activities	(2,182,003)	(68,480,861)	3,629,244	(67,033,620)
Cash flows from investing activities:				
Purchases of investments	—	(24,914,061)	—	(24,914,061)
Proceeds from sales and maturities investments	—	16,710,000	—	16,710,000
Interest received on investments	142,396	7,935,367	2,045,702	10,123,465
Increase in escrowed cash deposits	22,735	—	—	22,735
Cost of real estate owned	—	(287,633)	—	(287,633)
Proceeds from sales of real estate owned	—	783,551	—	783,551
Net cash provided by investing activities	165,131	227,224	2,045,702	2,438,057
Cash flows from noncapital financing activities:				
Net proceeds from issuance of bonds payable	—	148,793,538	4,129,250	152,922,788
Principal payments on bonds	(8,320)	(57,605,000)	(6,048,388)	(63,661,708)
Interest payments on bonds and notes payable	(743,817)	(26,202,298)	(7,968,375)	(34,914,490)
Proceeds from issuance of notes payable	1,000,000	20,000,000	29,794,450	50,794,450
Repayment of notes payable	(1,190,046)	(15,000,000)	(19,080,833)	(35,270,879)
Payments to bond insurers	—	(563,999)	(11,406)	(575,405)
(Payments for) proceeds from cost of issuance	(25,329)	307,844	(54,963)	227,552
Transfers from (to) other funds	1,929,581	(2,742,424)	812,843	—
Net cash provided by noncapital financing activities	962,069	66,987,661	1,572,578	69,522,308
Cash flows from capital related financing activities:				
Purchase of office furniture and fixtures	(69,316)	—	—	(69,316)
Net cash used for capital related financing activities	(69,316)	—	—	(69,316)
Net increase (decrease) in cash and cash equivalents	(1,124,119)	(1,265,976)	7,247,524	4,857,429
Cash and cash equivalents at beginning of year	7,519,011	98,901,758	27,818,552	134,239,321
Cash and cash equivalents at end of year	$ 6,394,892	97,635,782	35,066,076	139,096,750

VERMONT HOUSING FINANCE AGENCY

Statement of Cash Flows

Year ended June 30, 2007

	Operating Fund	Single Family Mortgage Program Fund	Multi-Family Mortgage Program Fund	Total
Reconciliation of cash flows from operating activities:				
Operating income (loss)	$ (3,393,590)	4,241,453	2,350,636	3,198,499
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	133,783	—	—	133,783
Amortization of discounts on bonds and notes payable, net	—	67,801	127,297	195,098
Amortization of costs of bond issuance and other fees	—	117,343	66,170	183,513
Amortization of deferred fees	111,043	—	—	111,043
Gain on bond redemptions	—	(132,514)	—	(132,514)
Losses on loans and real estate owned	—	(24,772)	—	(24,772)
Provision for loan losses	—	(17,914)	—	(17,914)
Investment interest income	(139,092)	(8,237,930)	(2,059,047)	(10,436,069)
Bond and note interest expense	735,807	27,216,934	7,823,579	35,776,320
Bond insurance expense	—	542,210	13,816	556,026
Prepaid cost of issuance	—	(825,700)	—	(825,700)
Changes in assets and liabilities:				
Decrease (increase) in mortgage loans receivable	538,094	(90,552,095)	(4,543,556)	(94,557,557)
Decrease in other assets	25,329	90,233	—	115,562
Increase (decrease) in accrued interest receivable	16,533	(329,584)	108,314	(204,737)
Increase in other receivables and prepaid expenses	(48,187)	(1,050,940)	(257,965)	(1,357,092)
Increase (decrease) in deferred mortgage origination fees, net	(167,928)	79,362	—	(88,566)
Increase in accounts payable	6,205	335,252	—	341,457
Net cash provided by (used for) operating activities	$ (2,182,003)	(68,480,861)	3,629,244	(67,033,620)

Supplemental noncash operating/investing activities:
Mortgage loans receivable converted to real estate owned amounted to $376,840 in fiscal year 2007

Supplemental noncash financing activities:
The fair value of investments increased $298,637 in fiscal year 2007

See accompanying notes to financial statements.

(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 million 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, and the unrestricted Operating fund of the Agency.

(i) Operating Fund

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

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.

(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 May 2007. Monies from these programs are used by the Agency to make and finance mortgage loans to sponsors of multi-family residential housing units for persons and families of low and moderate income within the State of Vermont.

(iv) 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, 2007, reserve requirements totaled $19,874,440 for the Single Family Mortgage Programs and $10,689,248 for the Multi-Family Mortgage Programs. Amounts held in reserve accounts as of June 30, 2007 exceeded the required balances in all cases.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

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

(b) Net Assets

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

- **Invested in Capital Assets**: Capital assets, net of accumulated depreciation, and cost of construction or improvement of those assets.
- **Restricted**: Net assets subject to externally imposed stipulations, including those for excess yield loans.
- **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

(Continued)

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, 2007, the allowance for loan losses totaled $78,973, relating to Single Family mortgage loans, $1,500,000 for Multi-Family mortgage loans and $2,669,756 for operating fund mortgage loans.

Included in Multi-Family mortgage loans receivable is approximately $9.4 million of mortgages funded by excess yield. The Agency estimates that it may be required to forgive or restructure up to this amount of these loans prior to the final maturity of the related 1995 and 1999 bond issues, in order to be in compliance with Federal tax laws. Subsequent to year end, the loans related to the 1995 issuance were refunded as part of the new bond issuance for 2007 Series A and B bonds.

(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 decrease in the fair value of investments, including both realized and unrealized gains and losses, is recognized in the statement of revenues, expenses, and changes in net assets. Fair values of guaranteed investment contracts (GICs) are recorded at contract value. Fair values of all other investments are based upon quoted market prices.

(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 forty years for the building and three to five years for furniture and fixtures, using the straight-line method.

(g) Amortization

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

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

(h) Income Tax Status

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

(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.

(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. Net appreciation and depreciation in the fair value of investments is recorded as nonoperating revenues and expenses. Gains and losses on bond redemption are recorded in operating expenses and revenues because they are a part of the normal operations of the Agency's activities.

(l) Use of Estimates

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

(3) Cash, Cash Equivalents and Investments

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

The Agency has an investment policy with an overriding goal of providing optimum coverage of risk exposure and maintaining liquidity necessary for future cash needs while maximizing the return on investments. All investment agreements with banks or bank holding companies, insurance companies or other financial institutions must be rated at least "A" by nationally recognized credit rating agencies. All

bonds are issued by U.S. Treasury or 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, 2007, were $5.1 million. Of these, $3.1 million were exposed to custodial credit risk as uninsured and uncollateralized.

(b) Investments

The Agency's investments at June 30, 2007 are presented below.

Investments by Type

June 30, 2007

(Expressed in thousands)

		Investment maturities (in years)			
Investment type	**Fair value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Certificate of deposit	$ 100	100	—	—	—
Guaranteed investment contracts	42,910	20,000	2,303	—	20,607
U.S. Treasury securities	9,013	—	—	9,013	—
Government agency securities	2,764	—	987	565	1,212
Common stock	1,721	—	—	—	—
	$ 56,508				

(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; Trinity Plus, AIG, Transamerica, Bayern LB, MBIA, and TMG. These investments are 22.6%, 15.3%, 17.2%, 11.9%, 15% and 6.3%, 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 or the subservicer.

At June 30, 2007, approximately 74% of the Single Family mortgage portfolios consist of primary insured mortgages.

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 4.5% to 14%, and are collateralized by first mortgage liens on all real and personal property of the mortgaged premises. As of June 30, 2007, $156,105 of the Multi-Family mortgage loans receivable under the Multi-Family Housing Program were financed from funds transferred from the Agency's Operating Fund.

(5) Real Estate Owned

Real estate owned at June 30, 2007 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, 2007, the valuation allowance totaled $6,498.

(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.

(Continued)

Outstanding bonds payable at June 30, 2007 are as follows (in thousands):

A. Single Family Mortgage Program Fund:	
Home Mortgage Purchase Program:	
1989 Series B, maturing 2007 to 2009, interest at 7.45%	$ 1,770,000
Housing Program:	
Series 8, maturing in 2031, interest at 6.05%	4,945,000
Series 9, maturing 2007 to 2037, interest at 4.45% to 5.4%	15,605,000
Series 10, maturing 2007 to 2030, interest at 4.25% to 5.25%	9,585,000
Series 11, maturing 2007 to 2030, interest at 4.95% to 5.95%	4,150,000
Series 12, maturing 2007 to 2031, interest at 5.4% to 6.4%	4,125,000
Series 13, maturing 2007 to 2031, interest at 4.95% to 5.97%	8,845,000
Series 14, maturing 2008 to 2032, interest at 4.375% to 6.05%	11,820,000
Series 15, maturing 2007 to 2032, interest at 4.1% to 5.7%	16,340,000
Series 16, maturing 2008 to 2033, interest at 4.4% to 5.6%	35,740,000
Series 17, maturing 2008 to 2034, interest at 2.95% to 5.1%	23,305,000
Series 18, maturing 2008 to 2034, interest at 2.7% to 4.95%	24,510,000
Series 19, maturing 2007 to 2035, interest at 2.05% to 5.0%	26,355,000
Series 20, maturing 2007 to 2035, interest at 3.15% to 5.5%	26,650,000
Series 21, maturing 2007 to 2035, interest at 2.1% to 5.0%	40,235,000
Series 22, maturing 2007 to 2035, interest at 3.1% to 5.0%	38,980,000
Series 23, maturing 2007 to 2035, interest at 3.15% to 5.0%	54,905,000
Series 24, maturing 2007 to 2036, interest at 3.6% to 5.0%	41,765,000
Series 25, maturing 2008 to 2037, interest at 3.8% to 6.0%	51,760,000
Series 26, maturing 2007 to 2038, interest at 3.5% to 5.75%	53,820,000
Series 27, maturing 2008 to 2038, interest at 3.65% to 5.5%	42,350,000
Total Housing Program	535,790,000
Total Single Family Mortgage Program Fund	537,560,000
B. Multi-Family Mortgage Program Fund:	
Mortgage Program:	
1999 Series A, maturing 2008 to 2020, interest at 4.45% to 5.125%	3,695,000
1999 Series B, maturing 2008 to 2030, interest at 5.15% to 6.0%	3,695,000
1999 Series C and D, maturing 2008 to 2021, interest at 5.0% to 5.8%	24,415,000
2000 Series A, maturing in 2039, interest at 5.9%	5,025,000
2000 Series B, C, and D, maturing 2014 to 2031, interest at 5.65% to 6.7%	2,610,000
2001 Series A, B, C, and D, maturing 2031 to 2032, interest at 5.4% to 7.27%	5,185,000
2002 Series A and B, maturing 2007 to 2039, interest at 4.1% to 7.2%	11,685,000
2003 Series A, maturing 2023 to 2043, interest at 5.05% to 5.25%	4,225,000
2003 Series C, maturing 2008 to 2034, interest at 2.95% to 5.1%	10,530,000
2004 Series A, B, and C, maturing 2007 to 2046, interest at 2.85% to 6.3%	14,410,000
2004 Series D, maturing 2024 to 2039, interest at 4.65% to 4.9%	2,750,000
2005 Series A, B, C, and D, maturing 2015 to 2035, interest at 4.4% to 5.75%	4,380,000
Total Mortgage Program	92,605,000

Description		Amount
Housing Program:		
1995 Series A, maturing 2008 to 2014, interest at 6.15%	$	11,050,000
1997 Series A, maturing 2008 to 2029, interest at 5.0% to 5.75%		5,280,000
Total		16,330,000
Direct Placement Program:		
Northgate Housing Program:		
Eleven series of bonds, issued December 1989, maturing 2007 to 2031, interest at 7.085% to 9.23%		6,447,114
Highgate Housing Program:		
Two series of bonds, issued May 1991, maturing 2007 to 2031, interest at 6.45% to 7.741%		1,352,516
Pine Meadow Development Bond:		
Taxable bond, issued July 1991, maturing 2008 to 2016, interest at 6%		347,500
Kilbourn Mobile Home Park Bond:		
Taxable bond, issued May 1996, maturing 2007 to 2016, interest at 7.5%		203,700
T.D. Banknorth Borrowing – Chittenden Housing Corp. Bond:		
Issued June 2006, maturing 2007 to 2012, interest at 5.41%		3,674,560
Multi-Family variable rate demand bonds, Series 1		
Maturing 2037 to 2038, interest at 4.18% to 5.49%		4,150,000
Total Direct Placement Programs		16,175,390
Total Multi-Family Mortgage Program Fund		125,110,390
C. Operating Fund:		
Northgate Housing Site Acquisition, issued December 1989, maturing 2007 to 2031, interest at 7%		563,082
Total bonds payable	$	663,233,472

All calendar year 2007 maturities on bonds payable occur after June 30, 2007.

In 2007, the Agency issued Single Family Housing Series 26 bonds for a total of $53.8 million. The proceeds were used to finance Single Family Mortgage loans and refund $11 million in Single Family Housing Series 7 bonds. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $243,000. This difference has been deferred and is being charged to operations through the year 2031, using the effective interest method. The bonds were refunded to reduce total debt service payments over the next thirty years by approximately $2.8 million and to obtain an economic gain of approximately $635,000.

Future maturities on bonds payable as of June 30, 2007 are as follows (in thousands):

	Multi-Family Mortgage Programs					
	Mortgage Program		Housing Program		Direct Placement Programs	
	Principal	Interest	Principal	Interest	Principal	Interest
Fiscal Year ending June 30:						
2008	$ 2,785	5,030	1,730	976	467	880
2009	2,915	4,894	1,845	871	518	837
2010	3,060	4,749	1,960	759	475	800
2011	3,230	4,592	2,085	640	461	763
2012	3,375	4,422	2,050	513	235	836
2013-2017	17,710	19,274	2,980	1,386	5,148	3,174
2018-2022	18,570	13,917	1,225	924	1,324	2,455
2023-2027	11,050	10,007	1,650	528	1,517	1,958
2028-2032	13,750	6,603	805	70	1,880	1,314
2033-2037	11,620	2,888	—	—	2,415	961
2038-2042	3,855	599	—	—	1,735	56
2043-2047	685	84	—	—	—	—
Total	$ 92,605	77,059	16,330	6,667	16,175	14,034

	Single Family Mortgage Programs							
	Home Mortgage Purchase Program		Housing Program		Operating Fund		Agency Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Fiscal Year ending June 30:								
2008	$ 665	120	9,785	25,576	9	39	15,441	32,621
2009	725	69	11,460	24,881	10	39	17,473	31,592
2010	380	14	11,690	24,415	10	38	17,576	30,775
2011	—	—	12,160	23,917	11	37	17,946	29,949
2012	—	—	12,630	23,375	12	37	18,301	29,183
2013-2017	—	—	72,800	107,529	72	170	98,710	131,533
2018-2022	—	—	91,470	88,307	101	141	112,690	105,743
2023-2027	—	—	103,560	64,906	141	100	117,919	77,499
2028-2032	—	—	116,610	38,311	197	43	133,242	46,341
2033-2037	—	—	87,230	11,416	—	—	101,265	15,265
2038-2042	—	—	6,395	206	—	—	11,985	860
2043-2047	—	—	—	—	—	—	685	84
Total	$ 1,770	203	535,790	432,839	563	644	663,233	531,445

A summary of bonds payable, discount on bonds, and premium on bonds and arbitrage rebate payable activity for the year ended June 30, 2007 is as follows (in thousands):

	Balance at June 30, 2006	Increases	Decreases	Balance at June 30, 2007	Amounts due within one year	Amounts due thereafter
Bonds payable	$ 574,785	152,110	(63,662)	663,233	15,441	647,792
Discount on bonds	(5,581)	(1,130)	638	(6,073)	(300)	(5,773)
Premium on bonds	3,370	1,942	(758)	4,554	165	4,389
Arbitrage rebate payable	70	1,042	(35)	1,077	—	1,077

The Agency has entered into interest rate swap agreements with counterparties in connection with the Single Family Housing Bonds Variable Rate Demand Bonds (VRDB) and Auction Rate Certificates (ARC) in order to obtain a synthetic fixed interest rate at a cost expected to be less than that associated with variable rate debt. 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.

Using rates as of June 30, 2007, debt service requirements of the variable rate bonds and net swap payments, assuming current interest rates remain constant, were as follows (in thousands):

	Variable rate		Interest rate	
	Principal	**Interest**	**swaps, net**	**Total**
Fiscal year ending June 30:				
2008	$ 396	4,083	(220)	4,259
2009	453	4,067	(227)	4,293
2010	920	4,047	(242)	4,725
2011	4,830	4,006	(242)	8,594
2012	1,260	3,826	(188)	4,898
2013-2017	11,519	18,181	(1,040)	28,660
2018-2022	22,935	15,027	(927)	37,035
2023-2027	21,455	10,445	(662)	31,238
2028-2032	24,510	6,157	(452)	30,215
2033-2037	18,221	1,427	(166)	19,482
	$ 106,499	71,266	(4,366)	173,399

A summary of the swap agreements follows:

Issue		Effective date	Face amount	Termination date	Termination option date	Fixed swap payment rate	Variable receivable rate	Fair value at June 30, 2007
Series 17	VRDB	5/1/2004	$ 7,090,000	5/1/2019	–	3.182%	70% of LIBOR	$ (180,503)
Series 19	ARC	4/8/2004	7,550,000	11/1/2027	–	3.492	70% of LIBOR	(187,285)
Series 20	ARC	8/12/2004	7,700,000	5/1/2028	11/1/2014	4.166	70% of LIBOR	(8,592)
Series 21	VRDB	11/30/2004	11,200,000	5/1/2029		3.682	BMA + 0.10% (if LIBOR ≤ 3.00%) 68% of LIBOR (if LIBOR > 3.00%)	(126,573)
Series 22	VRDB	6/8/2005	13,800,000	11/1/2034	5/1/2012	3.731	65% of LIBOR	(391,369)
Series 23	VRDB	10/26/2005	14,500,000	11/1/2034	11/1/2014	3.569	65% of LIBOR + 0.28%	(497,950)
Series 24	VRDB	4/19/2006	10,440,000	11/1/2036	5/1/2015	3.973	65% of LIBOR + 0.28%	(39,438)
Series 25	VRDB	7/12/2006	12,945,000	11/1/2036	11/1/2015	4.251	65% of LIBOR + 0.28%	250,652
Series 26	VRDB	10/26/2006	13,450,000	5/1/2037	5/1/2016	3.897	65% of LIBOR + 0.28%	(134,353)
TD BankNorth: Chittenden Housing		6/28/2006	3,674,560	6/28/2011	–	5.410	69% of LIBOR	(58,287)
Series 1-A	VRDB	1/25/2007	645,000	1/1/2022	–	4.240	BMA + 0.15%	(3,175)
Series 1-B	VRDB	1/25/2007	1,770,000	1/1/2022	–	4.180	BMA + 0.10%	(7,289)
Series 1-C	VRDB	1/25/2007	1,735,000	1/1/2022	–	5.490	LIBOR + 0.05%	22,221
								$ (1,361,941)

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 counter-parties 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, 2007, the Agency had outstanding borrowings totaling $6,066,655 which are secured by mortgage loans with a carrying value of $7,208,667. These borrowings have interest rates ranging from 6.32% to 7.66% and mature through November 2018.

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The Agency is operating under unsecured variable rate lines of credit that total $84,500,000 with lending institutions expiring in 2008. At June 30, 2007, there was a $24,982,200 balance outstanding at 5.22% to 7.29%. The lines of credit were entered into in order to fund working capital, and to be used for specific construction projects financed by the Agency.

The Agency has a $500,000 note payable to the Vermont Community Foundation at a rate of 4%, maturing in February 2010. The note is uncollateralized.

As of June 30, 2007, the Agency had $50,000,000 of notes payable in the Single Family Housing Program fund. These notes have interest rates ranging from 3.8% to 4.25% and mature between November 2007 and May 2008. These notes are uncollateralized. The proceeds of these notes are invested in guaranteed investment contracts, the income on which is used to make scheduled debt service payments, and to provide assisted rates for affordable housing mortgage loans.

Future maturities on notes payable and line of credit borrowings as of June 30, 2007 are as follows (in thousands):

		Operating Fund		Single Family Housing Program		Multi Family Direct Placement Program		Agency totals	
		Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:									
2008	$	3,357	629	50,000	1,420	19,773	835	73,130	2,884
2009		174	436	—	—	2,014	94	2,188	530
2010		812	416	—	—	—	—	812	416
2011		201	377	—	—	—	—	201	377
2012		246	361	—	—	—	—	246	361
2013-2017		3,212	1,413	—	—	—	—	3,212	1,413
2018-2020		1,760	143	—	—			1,760	143
Total	$	9,762	3,775	50,000	1,420	21,787	929	81,549	6,124

A summary of line of credit borrowings and notes payable activity for the year ended June 30, 2007 is as follows (in thousands):

		Balance at June 30, 2006	Increases	Decreases	Balance at June 30, 2007	Amounts due within one year	Amounts due thereafter
Line of credit borrowings	$	14,268	30,795	(20,081)	24,982	22,968	2,014
Notes payable		51,757	20,000	(15,190)	56,567	50,162	6,405
	$	66,025	50,795	(35,271)	81,549	73,130	8,419

(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, and to provide collateral for credit agreements.

(10) Pension Plan

Upon meeting certain eligibility requirements, the Agency's employees are eligible to participate in the Vermont Housing Finance Agency 401(k) Plan, 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, 2007, the Agency had a total payroll of $2,101,255, of which $1,886,746 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 $191,249 for the year ended June 30, 2007, and is included in salaries and benefits expense.

(11) Gain on Bond Redemptions

During the year ended June 30, 2007, the Agency redeemed $49,420,000 of its Single–Family Housing Program Bonds. Gain on bond redemptions of $132,514 was recognized which represents the unamortized balance of bond premium and discount and cost of issuance expenses associated with the bonds retired.

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

	Single Family Housing Program
Series 7	$ 11,895
Series 8	820
Series 9	3,115
Series 10	1,285
Series 11	595
Series 12	1,045
Series 13	1,945
Series 14	2,305
Series 15	1,790
Series 16	5,800
Series 17	2,225
Series 18	3,135
Series 19	2,355
Series 20	2,840
Series 21	2,930
Series 22	2,280
Series 23	2,875
Series 24	155
Series 25	20
Series 26	10
	$ 49,420

(12) Commitments and Contingencies

At June 30, 2007, the Agency had outstanding commitments in the amount of $47,656,750 to purchase or finance mortgage loans pursuant to its normal funding from bond proceeds. In addition, there were commitments of $14,650,000 for general loans or future program subsidy purposes.

Under the Single Family Mortgage Programs, the Agency has obtained surety bonds in the amount of $28,715,840 expiring between 2025 and 2038, 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 a combination of participating in the State self-insurance program and purchasing commercial insurance packages in the name of the Agency. The Agency has not experienced settled claims resulting from these risks which have exceeded its insurance coverage. In addition, the Agency's bylaws provide for the indemnification of Agency commissioners and officers by the Agency. This indemnification requirement is supported by various statutes related to claims against employees and entities of the State and the Agency's authorizing legislation which includes the benefit of sovereign immunity.

(14) Subsequent Event

In July 2007, the Agency issued $66,625,000 of bonds under the new Multiple Purpose Bonds indenture, 2007 Series A and Series B. The bond proceeds will be used to purchase single and multi-family mortgages, and to refund the multi-family housing bonds.

In September 2007, the Agency issued $66,055,000 of bonds and $28,250,000 of notes under the Multiple Purpose Bonds indenture, 2007 Series C and Series D. The bond proceeds will be used to purchase single family mortgages, while the note proceeds will be invested in guaranteed investment contracts.