



VERMONT HOUSING FINANCE AGENCY

Financial Statements and
Required Supplementary Information

June 30, 2008

(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 (the Agency) as of and for the year ended June 30, 2008, 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, 2008, 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

September 29, 2008

VERMONT HOUSING FINANCE AGENCY

Management's Discussion and Analysis

June 30, 2008

(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 the fiscal year ended June 30, 2008. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole.

Overview of the Agency

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

The majority of the Agency's funding has been provided from the proceeds of sales of tax-exempt and taxable bonds and notes, and advances from lending institutions. Since September 1974, the Agency has issued \$2.7 billion aggregate principal amount of bonds, notes and line of credit borrowings, of which \$829.0 million was outstanding as of June 30, 2008, 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.

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Management's Discussion and Analysis

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The following table summarizes the net assets of the Agency as of June 30, 2008 with comparative data from the prior fiscal year:

	<u>2008</u>	<u>2007</u>	<u>Percentage change 2008-2007</u>
Assets			
Cash and investments	\$ 200,568,394	195,605,193	2.5%
Loans receivable, net	705,340,994	623,559,508	13.1
Other assets	<u>20,176,584</u>	<u>19,468,097</u>	<u>3.6</u>
Total assets	<u>926,085,972</u>	<u>838,632,798</u>	<u>10.4</u>
Liabilities			
Bonds and notes payable	828,973,611	744,782,327	11.3
Other liabilities	<u>12,854,819</u>	<u>11,770,746</u>	<u>9.2</u>
Total liabilities	<u>841,828,430</u>	<u>756,553,073</u>	<u>11.3</u>
Net Assets			
Invested in capital assets	1,593,923	1,625,755	(2.0)
Restricted:			
Bond and other requirements	66,371,231	65,006,102	2.1
Excess yield loans	8,539,071	7,970,043	7.1
Unrestricted	<u>7,753,317</u>	<u>7,477,825</u>	<u>3.7</u>
Total net assets	<u>\$ 84,257,542</u>	<u>82,079,725</u>	<u>2.7%</u>

Total assets increased by \$87.5 million or 10.4% for the year ended June 30, 2008 when compared to the year ended June 30, 2007, primarily as a result of:

- Cash and investments increased by \$4.96 million, or 2.5%. 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 \$81.8 million, or 13.1%. Loan originations decreased by \$13.9 million, or 8.0% over the prior fiscal year. In fiscal year 2008 principal collections decreased by \$1.8 million, or 2.3% from the prior year.
- Included in restricted net assets is approximately \$8.5 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. In July of 2007, 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

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may eventually forgive a portion of these loans, prior to the final maturity of bonds in 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, 2008, with comparative data from the prior fiscal year:

	<u>2008</u>	<u>2007</u>	<u>Percentage change 2008-2007</u>
Beginning balance	\$ 623,559,508	529,001,950	17.9%
Mortgage loan originations	159,721,796	173,649,434	(8.0)
Principal collections	(76,527,169)	(78,305,453)	(2.3)
Loans transferred to REO status	(940,445)	(804,337)	16.9
Loan loss provision	(472,696)	17,914	(2,738.7)
Ending balance	<u>\$ 705,340,994</u>	<u>623,559,508</u>	<u>13.1%</u>

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

	<u>Balance at June 30, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2008</u>
Bonds payable	\$ 663,233	135,295	(69,659)	728,869
Notes payable	56,567	70,095	(50,154)	76,508
Lines of credit borrowings	24,982	28,039	(29,425)	23,596
Total debt	<u>\$ 744,782</u>	<u>233,429</u>	<u>(149,238)</u>	<u>828,973</u>

Total liabilities of the Agency increased by \$85.3 million, or 11.3% for the year ended June 30, 2008 when compared to the year ended June 30, 2007, primarily as a net result of:

- Three new bond issues of Multiple Purpose Bonds and Notes were issued totaling \$132.7 million in bonds and \$70.1 million in notes. These proceeds were used to finance single family mortgage purchases and to refund \$4.3 million in Single Family Housing Program Series 8 bonds, and \$16.3 million in Multi-Family Housing Program, 1995 Series A and 1997 Series A bonds.
- Total principal payments on bonds were \$69.7 million including \$39.7 million of Single Family Housing Bonds that were redeemed prior to maturity as a result of mortgage loan prepayments received.
- Thirty Multi-Family loan program construction projects were funded with \$28.0 million of notes payable from lending institutions.

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- \$2.6 million of direct placement bonds were issued to provide permanent financing for five Multi-Family projects.
- With the exception of direct placement bonds, all bond issues are rated by Moody's Investors Service and either Standard and Poor's or Fitch Ratings, 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, 2008 with comparative data from the prior fiscal year:

	<u>2008</u>	<u>2007</u>	Percentage change 2008-2007
Operating revenues:			
Interest on loans	\$ 41,677,841	36,078,654	15.5%
Interest on investments	9,717,929	10,436,069	(6.9)
Fee income	755,469	853,495	(11.5)
Gain on bond redemptions	187,468	132,514	41.5
Other revenue	75,684	64,378	17.6
Total operating revenues	<u>52,414,391</u>	<u>47,565,110</u>	<u>10.2</u>
Operating expenses:			
Financing costs	43,355,316	37,979,645	14.2
Operational expenses	4,900,927	4,310,066	13.7
Mortgage servicing	1,394,369	1,155,529	20.7
Loan losses	512,180	921,371	(44.4)
Total operating expenses	<u>50,162,792</u>	<u>44,366,611</u>	<u>13.1</u>
Operating income	<u>2,251,599</u>	<u>3,198,499</u>	<u>(29.6)</u>
Nonoperating revenues:			
Net appreciation (depreciation) in fair value of investments	(73,782)	298,637	(124.7)
Increase in net assets	2,177,817	3,497,136	(37.7)
Net assets at beginning of year	<u>82,079,725</u>	<u>78,582,589</u>	<u>4.5</u>
Net assets at end of year	<u>\$ 84,257,542</u>	<u>82,079,725</u>	<u>2.7%</u>

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Management's Discussion and Analysis

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For the year ended June 30, 2008, net assets increased \$2,177,817, compared to an increase of \$3,497,136 for the prior year. The \$1.3 million change in net assets when comparing 2008 to 2007, was primarily the result of the following:

- A decrease of \$718,000 (6.9%), in interest income on investments as a result of declining investment rates and an increase in operational expenses of \$591,000 (13.7%), due to increased personnel costs, and legal and professional fees associated with establishing a new bond indenture, hiring a new trustee, and issues related to the volatile credit environment.
- The Agency increased loan loss reserves by \$473,000 in fiscal year 2008 compared with no change in fiscal year 2007. 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 \$187,000 in fiscal year 2008 compared to a gain on bond redemptions of \$132,000 in the prior year.
- Net depreciation in the fair value of investments accounted for a decrease in net assets of \$74,000 in fiscal year 2008, compared to net appreciation of \$299,000 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 2008, the Agency projected an Operating Fund budget surplus of \$6,100 and achieved an actual budget surplus of \$382,800 as a result of positive income and expense variances of \$167,500 and \$149,100, respectively, and fund transfers \$60,100 greater than budgeted.

The addition of net deferred loan origination costs and fees of \$139,100 in fiscal year 2008 to the budget surplus of \$382,800 results in an increase in Operating Fund net assets for fiscal year 2008 of \$243,700 compared with the prior period of \$167,800.

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.

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Statement of Net Assets

June 30, 2008

Assets	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Bonds	Multi-Family Mortgage Program Fund	Total
Cash and cash equivalents	\$ 10,071,957	—	—	—	10,071,957
Investments	100,000	—	—	—	100,000
Accrued interest receivable:					
Mortgage and notes	1,171,731	2,036,288	409,760	354,931	3,972,710
Investments	12,460	484,048	647,910	289,450	1,433,868
Current portion of mortgage loans receivable	271,089	9,141,818	2,753,625	2,683,846	14,850,378
Current costs of bond issuance expense	—	102,976	32,314	48,137	183,427
Current portion of deferred mortgage originating fees, net	—	445,108	28,399	—	473,507
Current receivables and prepaid expenses	226,822	1,364,994	231,051	96,926	1,919,793
Interfund receivables (payables)	(2,962,307)	4,504,405	(1,292,645)	(249,453)	—
Total current assets	<u>8,891,752</u>	<u>18,079,637</u>	<u>2,810,414</u>	<u>3,223,837</u>	<u>33,005,640</u>
Noncurrent assets:					
Restricted cash and cash equivalents	—	40,027,800	59,047,966	25,182,898	124,258,664
Restricted investments	—	28,292,479	32,802,548	5,042,746	66,137,773
Noncurrent portion of mortgage loans receivable, net	12,647,163	445,169,135	123,501,187	109,173,131	690,490,616
Deferred costs of bond issuance, net	—	2,677,071	667,924	933,532	4,278,527
Deferred mortgage origination fees, net	—	1,195,526	172,904	—	1,368,430
Noncurrent receivables and prepaid expenses	—	3,211,005	1,201,000	—	4,412,005
Land	775,000	—	—	—	775,000
Building (less accumulated depreciation of \$337,780)	663,054	—	—	—	663,054
Office furniture and fixtures (less accumulated depreciation of \$1,410,719)	155,869	—	—	—	155,869
Other assets and real estate owned	—	540,394	—	—	540,394
Total noncurrent assets	<u>14,241,086</u>	<u>521,113,410</u>	<u>217,393,529</u>	<u>140,332,307</u>	<u>893,080,332</u>
Total assets	<u>\$ 23,132,838</u>	<u>539,193,047</u>	<u>220,203,943</u>	<u>143,556,144</u>	<u>926,085,972</u>
Liabilities and Fund Balances					
Liabilities:					
Current liabilities:					
Current notes payable and lines of credit	\$ 3,368,359	—	70,095,000	19,669,380	93,132,739
Current bonds payable	9,526	11,365,000	1,965,000	3,539,157	16,878,683
Current unamortized bond and note premium (discount), net	—	(19,099)	(36,383)	(65,261)	(120,743)
Current deferred loan origination fees	353,148	—	—	—	353,148
Accounts payable	626,811	1,038,139	216,694	100,832	1,982,476
Escrowed cash deposits	2,405,948	—	—	—	2,405,948
Arbitrage rebate payable	—	150,155	—	—	150,155
Accrued interest payable	57,383	3,916,552	1,421,463	1,893,960	7,289,358
Total current liabilities	<u>6,821,175</u>	<u>16,450,747</u>	<u>73,661,774</u>	<u>25,138,068</u>	<u>122,071,764</u>
Noncurrent liabilities:					
Noncurrent notes payable	6,239,685	—	—	732,198	6,971,883
Noncurrent bonds payable	544,653	476,975,000	130,135,000	104,335,653	711,990,306
Unamortized bond and note premium (discount), net	—	(357,568)	214,709	(898,487)	(1,041,346)
Arbitrage rebate payable	—	1,655,738	—	—	1,655,738
Noncurrent deferred mortgage loan origination fees	180,085	—	—	—	180,085
Total noncurrent liabilities	<u>6,964,423</u>	<u>478,273,170</u>	<u>130,349,709</u>	<u>104,169,364</u>	<u>719,756,666</u>
Total liabilities	<u>13,785,598</u>	<u>494,723,917</u>	<u>204,011,483</u>	<u>129,307,432</u>	<u>841,828,430</u>
Net assets:					
Invested in capital assets	1,593,923	—	—	—	1,593,923
Restricted	—	44,469,130	16,192,460	14,248,712	74,910,302
Unrestricted	7,753,317	—	—	—	7,753,317
Total net assets	<u>9,347,240</u>	<u>44,469,130</u>	<u>16,192,460</u>	<u>14,248,712</u>	<u>84,257,542</u>
Total liabilities and net assets	<u>\$ 23,132,838</u>	<u>539,193,047</u>	<u>220,203,943</u>	<u>143,556,144</u>	<u>926,085,972</u>

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2008

	<u>Operating Fund</u>	<u>Single Family Mortgage Program Fund</u>	<u>Multiple Purpose Bond Fund</u>	<u>Multi-Family Mortgage Program Fund</u>	<u>Total</u>
Operating revenues:					
Interest income:					
Mortgage and construction loans	\$ 817,450	27,959,694	4,987,433	7,913,264	41,677,841
Investments	166,554	4,587,865	3,544,713	1,418,797	9,717,929
Fee income:					
Multi-Family Mortgage Programs	633,996	—	90,037	10,630	734,663
Single Family Mortgage Programs	16,726	781	3,299	—	20,806
Gain on bond redemptions	—	187,468	—	—	187,468
Miscellaneous income	75,684	—	—	—	75,684
Total operating revenues	<u>1,710,410</u>	<u>32,735,808</u>	<u>8,625,482</u>	<u>9,342,691</u>	<u>52,414,391</u>
Operating expenses:					
Financing costs, including interest and amortization of premium, discount and costs of issuance, net	674,876	27,718,745	7,184,205	7,777,490	43,355,316
Mortgage service and contract administration fees	—	1,192,273	146,320	55,776	1,394,369
Salaries and benefits	3,301,633	—	—	—	3,301,633
Operating expenses	1,205,692	—	—	—	1,205,692
Professional fees	172,677	—	—	—	172,677
Trustee and assignee fees	220,925	—	—	—	220,925
Property disposition and loan loss recoveries	56,093	151,726	14,361	290,000	512,180
Total operating expenses	<u>5,631,896</u>	<u>29,062,744</u>	<u>7,344,886</u>	<u>8,123,266</u>	<u>50,162,792</u>
Operating income (loss)	<u>(3,921,486)</u>	<u>3,673,064</u>	<u>1,280,596</u>	<u>1,219,425</u>	<u>2,251,599</u>
Nonoperating revenues:					
Net appreciation (depreciation) in fair value of investments	—	(92,930)	—	19,148	(73,782)
Income (loss) before transfers	<u>(3,921,486)</u>	<u>3,580,134</u>	<u>1,280,596</u>	<u>1,238,573</u>	<u>2,177,817</u>
Net transfers to (from) operating fund	<u>4,165,146</u>	<u>(2,811,019)</u>	<u>14,911,864</u>	<u>(16,265,991)</u>	<u>—</u>
Increase (decrease) in net assets	243,660	769,115	16,192,460	(15,027,418)	2,177,817
Net assets at beginning of year	<u>9,103,580</u>	<u>43,700,015</u>	<u>—</u>	<u>29,276,130</u>	<u>82,079,725</u>
Net assets at end of year	<u>\$ 9,347,240</u>	<u>44,469,130</u>	<u>16,192,460</u>	<u>14,248,712</u>	<u>84,257,542</u>

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

Statement of Cash Flows

Year ended June 30, 2008

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Program Fund	Multi-Family Mortgage Program Fund	Total
Cash flows from operating activities:					
Interest collections on mortgages	\$ 812,118	27,862,694	4,376,369	8,166,724	41,217,905
Principal collections on mortgages	1,994,051	39,941,982	4,377,389	30,213,747	76,527,169
Purchases of mortgages	(2,612,755)	(24,194,934)	(102,286,464)	(30,627,643)	(159,721,796)
Transfers of mortgages	—	4,297,881	(28,360,098)	24,062,217	—
Fee income and other receipts	721,269	781	93,337	—	815,387
Salaries and benefits payments	(3,224,530)	—	—	—	(3,224,530)
Operating expense payments	(1,311,921)	—	—	32,539	(1,279,382)
Proceeds for foreclosed property loss	—	(129,070)	—	—	(129,070)
Payment on prepaid origination fees	—	(35,264)	(1,598,749)	—	(1,634,013)
Service fee and other payments	—	(1,207,662)	(148,905)	(55,776)	(1,412,343)
Net cash provided by (used for) operating activities	<u>(3,621,768)</u>	<u>46,536,408</u>	<u>(123,547,121)</u>	<u>31,791,808</u>	<u>(48,840,673)</u>
Cash flows from investing activities:					
Purchases of investments	—	20,250,000	(32,802,548)	—	(12,552,548)
Proceeds from sales and maturities investments	—	—	—	2,749,435	2,749,435
Interest received on investments	172,169	6,305,847	2,896,803	1,662,541	11,037,360
Increase in escrowed cash deposits	(173,120)	(229)	—	—	(173,349)
Cost of real estate owned	—	(194,713)	(1,234)	—	(195,947)
Proceeds from sales of real estate owned	—	746,007	—	—	746,007
Net cash provided by (used for) investing activities	<u>(951)</u>	<u>27,106,912</u>	<u>(29,906,979)</u>	<u>4,411,976</u>	<u>1,610,958</u>
Cash flows from noncapital financing activities:					
Net proceeds from issuance of bonds payable	—	—	132,811,993	2,601,925	135,413,918
Principal payments on bonds	(8,903)	(49,220,000)	(580,000)	(19,410,986)	(69,219,889)
Interest payments on bonds, notes payable and lines of credit	(677,081)	(27,056,277)	(5,350,783)	(8,063,676)	(41,147,817)
Proceeds from issuance of notes payable and lines of credit	—	—	70,095,000	28,039,451	98,134,451
Repayment of notes payable and lines of credit	(153,611)	(50,000,000)	—	(29,425,073)	(79,578,684)
Payments to bond insurers	—	(413,224)	(152,518)	(18,267)	(584,009)
(Payments for) proceeds from cost of issuance	138,783	(201,353)	(526,135)	132,971	(455,734)
Transfers from (to) other funds	8,099,246	(4,360,448)	16,204,509	(19,943,307)	—
Net cash provided by (used for) noncapital financing activities	<u>7,398,434</u>	<u>(131,251,302)</u>	<u>212,502,066</u>	<u>(46,086,962)</u>	<u>42,562,236</u>
Cash flows from capital related financing activities:					
Purchase of office furniture and fixtures	(98,650)	—	—	—	(98,650)
Net cash used for capital related financing activities	<u>(98,650)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(98,650)</u>
Net increase (decrease) in cash and cash equivalents	3,677,065	(57,607,982)	59,047,966	(9,883,178)	(4,766,129)
Cash and cash equivalents at beginning of year	6,394,892	97,635,782	—	35,066,076	139,096,750
Cash and cash equivalents at end of year	<u>\$ 10,071,957</u>	<u>40,027,800</u>	<u>59,047,966</u>	<u>25,182,898</u>	<u>134,330,621</u>

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

Statement of Cash Flows

Year ended June 30, 2008

	<u>Operating Fund</u>	<u>Single Family Mortgage Program Fund</u>	<u>Multiple Purpose Program Fund</u>	<u>Multi-Family Mortgage Program Fund</u>	<u>Total</u>
Reconciliation of cash flows from operating activities:					
Operating income (loss)	\$ (3,921,486)	3,673,064	1,280,596	1,219,425	2,251,599
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	130,482	—	—	—	130,482
Amortization of discounts on bonds and notes payable, net	—	33,434	46,333	72,864	152,631
Amortization of costs of bond issuance and other fees	—	106,784	42,591	49,836	199,211
Amortization of deferred fees	—	1,086,099	—	—	1,086,099
Gain on bond redemptions	—	(187,468)	—	—	(187,468)
Investment interest income	(166,554)	(4,587,864)	(3,544,713)	(1,418,796)	(9,717,927)
Bond and note interest expense	674,877	26,045,698	6,772,246	7,638,767	41,131,588
Bond insurance expense	—	441,167	122,870	16,024	580,061
Prepaid cost of issuance	(138,783)	—	—	—	(138,783)
Changes in assets and liabilities:					
Decrease (increase) in mortgage loans receivable	(585,046)	21,120,051	(126,254,812)	23,938,321	(81,781,486)
Increase in other assets	—	(981,993)	—	—	(981,993)
Increase (decrease) in accrued interest receivable	11,498	(97,000)	(409,761)	61,233	(434,030)
Increase (decrease) in other receivables and prepaid expenses	150,008	(267,574)	(1,401,168)	214,134	(1,304,600)
Increase (decrease) in deferred mortgage origination fees, net	75,362	175,564	(201,303)	—	49,623
Increase (decrease) in accounts payable	147,874	(23,554)	—	—	124,320
Net cash provided by (used for) operating activities	<u>\$ (3,621,768)</u>	<u>46,536,408</u>	<u>(123,547,121)</u>	<u>31,791,808</u>	<u>(48,840,673)</u>

Supplemental noncash operating/investing activities:

Mortgage loans receivable converted to real estate owned amounted to \$906,786 for the Single Family Mortgage Program Fund and \$33,659 for the Operating Fund in fiscal year 2008.

Supplemental noncash financing activities:

The fair value of investments increased \$92,930 for the Single Family Mortgage Program Fund and decreased \$19,148 for the Multi-Family Mortgage Program Fund in fiscal year 2008.

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008

(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. Instruments so issued do not constitute a debt or obligation of the State of Vermont and are payable solely from revenues or assets of the Agency.

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

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

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

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

(i) **Operating Fund**

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

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

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

This fund has been established under the Single Family Insured Mortgage Bond Resolution adopted in September 1976, the Single Family Mortgage Purchase Bond Resolution adopted in June 1978, the Home Mortgage Purchase Bond Resolution adopted in July 1983 and the Single Family Housing Bond Resolution adopted in September 1990. Monies from these programs have been used by the Agency to purchase mortgage loans on single family residential housing units for persons and families of low and moderate income in Vermont.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008

(iii) Multiple Purpose Program Fund

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

(iv) Multi-Family Mortgage Program Fund

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

(v) Reserve Requirements

Under various bond resolutions of the Agency, certain amounts from bond proceeds are required to be set aside and maintained for potential debt service requirements in trusteed accounts. As of June 30, 2008, reserve requirements totaled \$7,940,741 for the Single Family Mortgage Programs, \$18,551,343 for the Multi-Family Mortgage Programs and \$4,552,548 for the Multiple Purpose Programs. Amounts held in reserve accounts as of June 30, 2008 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.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008

- *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, 2008, the allowance for loan losses totaled \$247,301 relating to Single Family mortgage loans, \$1,514,361 for Multiple Purpose mortgage loans, \$290,000 for Multi-Family mortgage loans and \$2,669,756 for operating fund mortgage loans.

Included in Multi-Family mortgage loans receivable is approximately \$10 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 2008 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.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008

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 revenues or expenses 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;

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008

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, 2008, were \$4.3 million. Of these, \$2.4 million were exposed to custodial credit risk as uninsured and uncollateralized.

(b) Investments

The Agency’s investments at June 30, 2008 are presented below.

Investments by Type

June 30, 2008

(Expressed in thousands)

Investment type	Fair value	Investment maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Certificate of deposit	\$ 100	100	—	—	—
Guaranteed investment contracts	53,159	28,250	—	—	24,909
U.S. Treasury securities	9,507	—	—	9,507	—
Government agency securities	2,414	553	—	584	1,277
Common stock	1,057	—	—	—	1,057
	<u>\$ 66,237</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; Wells Fargo, Calyon, Transamerica, AIG, Bayern LB, and Depfa. These investments are 29.5%, 19.9%, 13.1%, 12.5%, 9.7% and 6.5%, 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.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008

(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 4.5% to 12%. 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, 2008, approximately 72% of the Single Family mortgage portfolios consist of primary insured mortgages.

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

(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.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008

(5) Capital Assets

Capital asset activity for the year ended June 30, 2008 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Capital assets not being depreciated				
Land	\$ 775,000	—	—	775,000
Total capital assets not being depreciated	<u>775,000</u>	<u>—</u>	<u>—</u>	<u>775,000</u>
Capital assets being depreciated				
Building	1,000,834	—	—	1,000,834
Building improvements	649,853	—	—	649,853
Computer equipment	631,200	88,217	—	719,417
Furniture and fixtures	186,885	10,433	—	197,318
Total capital assets being depreciated	<u>2,468,772</u>	<u>98,650</u>	<u>—</u>	<u>2,567,422</u>
Less accumulated depreciation for:				
Building	(312,760)	(25,020)	—	(337,780)
Building improvements	(594,480)	(32,869)	—	(627,349)
Computer equipment	(548,598)	(59,651)	—	(608,249)
Furniture and fixtures	(162,179)	(12,942)	—	(175,121)
Total accumulated depreciation	<u>(1,618,017)</u>	<u>(130,482)</u>	<u>—</u>	<u>(1,748,499)</u>
Total capital assets being depreciated, net	<u>850,755</u>	<u>(31,832)</u>	<u>—</u>	<u>818,923</u>
Capital assets, net	<u>\$ 1,625,755</u>	<u>(31,832)</u>	<u>—</u>	<u>1,593,923</u>

Current period depreciation expenses totaled \$130,482 was charged to the operating fund.

(6) Real Estate Owned

Real estate owned at June 30, 2008 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, 2008, the valuation allowance totaled \$66,389.

(7) Escrowed Cash Deposits

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

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008

(8) Bonds Payable

All bonds payable are general or special obligations of the Agency and are collateralized by the operating revenues, loans, funds and investments pledged pursuant to the respective bond resolutions. Interest is payable semi-annually. All bonds are subject to redemption after various dates at prices ranging from 100% to 103% of par value.

Outstanding bonds payable at June 30, 2008 are as follows:

A. Single Family Mortgage Program Fund:

Home Mortgage Purchase Program:

1989 Series B, maturing 2008 to 2009, interest at 7.450%	\$ <u>1,105,000</u>
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Housing Program:

Series 9, maturing 2008 to 2037, interest at 4.550% to 5.400%	13,660,000
Series 10, maturing 2008 to 2030, interest at 4.350% to 5.250%	8,470,000
Series 11, maturing 2008 to 2030, interest at 5.050% to 5.950%	3,485,000
Series 12, maturing 2008 to 2031, interest at 5.500% to 6.400%	3,235,000
Series 13, maturing 2008 to 2031, interest at 5.000% to 5.970%	7,935,000
Series 14, maturing 2009 to 2032, interest at 4.550% to 6.050%	10,225,000
Series 15, maturing 2008 to 2032, interest at 4.200% to 5.375%	14,020,000
Series 16, maturing 2009 to 2033, interest at 4.600% to 5.600%	30,145,000
Series 17, maturing 2008 to 2034, interest at 3.182% to 5.100%	20,860,000
Series 18, maturing 2009 to 2034, interest at 3.050% to 4.950%	21,290,000
Series 19, maturing 2008 to 2035, interest at 2.450% to 5.000%	23,855,000
Series 20, maturing 2008 to 2035, interest at 3.550% to 5.500%	24,990,000
Series 21, maturing 2008 to 2035, interest at 2.250% to 5.000%	36,550,000
Series 22, maturing 2008 to 2035, interest at 3.350% to 5.000%	35,885,000
Series 23, maturing 2008 to 2035, interest at 3.400% to 5.000%	51,535,000
Series 24, maturing 2008 to 2036, interest at 3.625% to 5.000%	39,140,000
Series 25, maturing 2008 to 2037, interest at 3.875% to 6.000%	49,110,000
Series 26, maturing 2008 to 2038, interest at 3.600% to 5.750%	50,930,000
Series 27, maturing 2008 to 2038, interest at 3.700% to 5.500%	<u>41,915,000</u>

Total Housing Program	<u>487,235,000</u>
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Total Single Family Mortgage Program Fund	<u>488,340,000</u>
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B. Multiple Purpose Bond Program Fund:

Multiple Purpose Bonds:

2007 Series A and B, maturing 2008 to 2038, interest at 4.000% to 5.750%	66,045,000
2007 Series C, maturing 2008 to 2038, interest at 3.850% to 5.750%	<u>66,055,000</u>

Total Multiple Purpose Bonds	<u>132,100,000</u>
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VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008

C. Multi-Family Mortgage Program Fund:

Mortgage Program:

1999 Series A, maturing 2009 to 2020, interest at 4.550% to 5.125%	3,465,000
1999 Series B, maturing 2009 to 2030, interest at 5.300% to 6.000%	3,610,000
1999 Series C and D, maturing 2009 to 2021, interest at 5.050% to 5.800%	23,035,000
2000 Series A, maturing 2009 to 2039, interest at 5.900%	4,970,000
2000 Series B, C, and D, maturing 2008 to 2031, interest at 5.050% to 6.700%	2,385,000
2001 Series A, B, C, and D, maturing 2008 to 2032, interest at 5.400% to 7.270%	5,005,000
2002 Series A and B, maturing 2008 to 2039, interest at 4.350% to 7.200%	11,505,000
2003 Series A and B, maturing 2008 to 2039, interest at 4.350% to 7.200%	4,165,000
2003 Series C, maturing 2009 to 2034, interest at 3.200% to 5.100%	10,340,000
2004 Series A, B, and C, maturing 2008 to 2046, interest at 3.150% to 6.300%	14,110,000
2004 Series D, maturing 2008 to 2039, interest at 4.650% to 4.900%	2,720,000
2005 Series A, B, C, and D, maturing 2008 to 2035, interest at 4.400% to 5.750%	4,300,000
Total Mortgage Program	89,610,000

Direct Placement Program:

Northgate Housing Program:

Eleven series of bonds, issued December 1989, maturing 2008 to 2031, interest at 7.085% to 9.230%	\$ 6,147,407
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Highgate Housing Program:

Two series of bonds, issued May 1991, maturing 2008 to 2031, interest at 6.450% to 7.741%	1,199,123
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Pine Meadow Development Bond:

Taxable bond, issued July 1991, maturing 2009 to 2016, interest at 6.000%	318,600
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Kilbourn Mobile Home Park Bond:

Taxable bond, issued May 1996, maturing 2008 to 2016, interest at 7.500%	196,400
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T.D. Banknorth Borrowing – Chittenden Housing Corp. Bond:

Issued June 2006, maturing 2008 to 2012, interest at 5.410%	3,648,280
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Multi-Family variable rate demand bonds, Series 1:

Maturing 2009 to 2038, interest at 4.180% to 5.490%	4,140,000
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Multi-Family variable rate demand bonds, Series 2:

Maturing 2009 to 2038, interest at 3.756% to 4.610%	2,615,000
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Total Direct Placement Programs	18,264,810
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Total Multi-Family Mortgage Program Fund	107,874,810
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D. Operating Fund:

Northgate Housing Site Acquisition, issued December 1989, maturing 2008 to 2031, interest at 7.000%

554,179

Total bonds payable

\$ 728,868,989

All calendar year 2008 maturities on bonds payable occur after June 30, 2008.

In 2008, the Agency issued the Multi Purpose Bonds, 2007 Series A and B for a total of \$66.6 million and the 2007 Series C for a total of \$66.0 million. The proceeds were used to finance Single Family Mortgage loans and refund \$16.3 million of Multi-Family Housing Bonds, 1995 Series A and 1997 Series A and \$4.3 million of Single Family Housing Bonds, Series 8. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$650,572. This difference has been deferred and is being charged to operations through the year 2038, using the

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008

straight-line method. The bonds were refunded to reduce total debt service payments over the next thirty years by approximately \$1.7 million and to obtain an economic gain of approximately \$1.2 million.

Future maturities on bonds payable as of June 30, 2008 are as follows (in thousands):

	Multi-Family Mortgage Programs				Multiple Purpose Programs	
	Mortgage Program		Direct Placement Programs		Multiple Purpose bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
Fiscal year ending June 30:						
2009	\$ 2,915	4,882	624	1,541	1,965	6,477
2010	3,060	4,736	582	1,459	2,540	6,463
2011	3,230	4,580	567	1,380	3,140	6,347
2012	3,375	4,410	334	1,541	3,235	6,207
2013	3,500	4,230	3,830	1,427	2,930	6,062
2014-2018	17,990	18,263	2,306	5,513	14,005	28,276
2019-2023	16,545	12,905	1,892	2,545	17,695	24,448
2024-2028	11,675	9,397	1,629	1,989	22,690	19,484
2029-2033	13,985	5,843	1,506	1,332	26,130	13,419
2034-2038	10,115	2,272	4,995	970	33,710	5,933
2039-2043	2,780	387	—	—	4,060	168
2044-2047	440	51	—	—	—	—
Total	\$ 89,610	71,956	18,265	19,697	132,100	123,284

	Single Family Mortgage Programs							
	Home Mortgage				Operating Fund		Agency totals	
	Purchase Program		Housing Program		Principal	Interest	Principal	Interest
Fiscal year ending June 30:								
2009	\$ 725	69	10,640	22,897	10	39	16,879	35,905
2010	380	14	10,860	22,470	10	38	17,432	35,180
2011	—	—	11,300	22,011	11	37	18,248	34,355
2012	—	—	11,445	21,516	11	37	18,400	33,711
2013	—	—	11,705	21,001	12	36	21,977	32,756
2014-2018	—	—	69,465	96,228	77	165	103,843	148,445
2019-2023	—	—	86,975	77,860	108	134	123,215	117,892
2024-2028	—	—	96,795	56,000	151	90	132,940	86,960
2029-2033	—	—	109,970	30,896	164	30	151,755	51,520
2034-2038	—	—	68,080	7,094	—	—	116,900	16,269
2039-2043	—	—	—	—	—	—	6,840	555
2044-2047	—	—	—	—	—	—	440	51
Total	\$ 1,105	83	487,235	377,973	554	606	728,869	593,599

A summary of bonds payable, discount on bonds, and premium on bonds and arbitrage rebate payable activity for the year ended June 30, 2008 is as follows (in thousands):

	Balance at June 30, 2007	Increases	Decreases	Balance at June 30, 2008	Amounts due within one year	Amounts due thereafter
Bonds payable	\$ 663,233	135,295	(69,659)	728,869	16,879	711,990
Discount on bonds	(6,073)	(1,019)	612	(6,480)	(282)	(6,198)
Premium on bonds	4,554	1,577	(813)	5,318	161	5,157
Arbitrage rebate payable	1,077	762	(33)	1,806	150	1,656

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008

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 Securities Industry and Financial Markets Association (SIFMA), and the Agency pays the swap provider an amount at a fixed rate of interest.

Using rates as of June 30, 2008, 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 swaps, net	Total
	Principal	Interest		
Fiscal year ending June 30:				
2009	\$ 463	2,820	(2,756)	527
2010	915	2,809	(2,747)	977
2011	4,815	2,785	(2,727)	4,873
2012	1,245	2,695	(2,571)	1,369
2013	1,315	2,666	(2,547)	1,434
2014-2018	15,055	12,651	(12,162)	15,544
2019-2023	30,265	10,338	(9,992)	30,611
2024-2028	27,640	7,194	(6,980)	27,854
2029-2033	33,535	4,099	(4,060)	33,574
2034-2038	21,125	829	(877)	21,077
	<u>\$ 136,373</u>	<u>48,886</u>	<u>(47,419)</u>	<u>137,840</u>

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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, 2008
Series 17	VRDB 4/23/2003	\$ 6,235,000	5/1/2019	–	3.182%	70% of LIBOR	\$ (79,549)
Series 19	ARC 4/8/2004	7,250,000	11/1/2027	–	3.492	70% of LIBOR	(188,528)
Series 20	ARC 8/12/2004	7,350,000	5/1/2028	11/1/2014	4.166	70% of LIBOR	(377,243)
Series 21	VRDB 11/30/2004	10,700,000	5/1/2029	–	3.682	SIFMA + 0.10% (if LIBOR ≤ 3.00%) 68% of LIBOR (if LIBOR > 3.00%)	(407,679)
Series 22	VRDB 6/8/2005	13,800,000	11/1/2034	5/1/2012	3.731	65% of LIBOR	(248,768)
Series 23	VRDB 10/26/2005	14,500,000	11/1/2034	11/1/2014	3.569	65% of LIBOR + 0.28%	(188,766)
Series 24	VRDB 4/19/2006	10,440,000	11/1/2035	5/1/2015	3.973	65% of LIBOR + 0.28%	(444,061)
Series 25	VRDB 7/12/2006	12,945,000	11/1/2036	11/1/2015	4.251	65% of LIBOR + 0.28%	(862,713)
Series 26	VRDB 10/26/2006	13,450,000	5/1/2037	5/1/2016	3.897	65% of LIBOR + 0.28%	(540,864)
MP2007 A	VRDB 7/24/2007	12,800,000	5/1/2037	5/1/2017	4.197	65% of LIBOR + 0.28%	(859,547)
MP2007 C	VRDB 9/12/2007	16,500,000	11/1/2037	5/1/2017	3.990	65% of LIBOR + 0.28%	(825,117)
TD BankNorth							
Chittenden Housing	6/28/2006	3,648,280	6/28/2011	–	5.410	69% of LIBOR	(152,744)
Series 1-A	VRDB 1/25/2007	645,000	1/1/2022	–	4.240	SIFMA + 0.15%	(33,820)
Series 1-B	VRDB 1/25/2007	1,760,000	1/1/2022	–	4.180	SIFMA + 0.10%	(90,805)
Series 1-C	VRDB 1/25/2007	1,735,000	1/1/2022	–	5.490	LIBOR + 0.05%	(128,938)
Series 2-A	VRDB 1/24/2008	1,320,000	1/5/2023	–	3.800	SIFMA + 0.15%	(12,324)
Series 2-B	VRDB 1/24/2008	275,000	1/5/2023	–	3.756	SIFMA + 0.10%	(2,661)
Series 2-C	VRDB 1/24/2008	1,020,000	1/5/2023	–	4.610	LIBOR + 0.05%	8,406
		<u>\$ 136,373,280</u>					<u>\$ (5,435,721)</u>

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.

(9) Notes Payable

The Agency may borrow from the Federal Home Loan Bank (FHLB) in an amount not to exceed assets pledged to the FHLB. As of June 30, 2008, the Agency had outstanding borrowings totaling \$5,913,044 which are secured by mortgage loans with a carrying value of \$6,476,908. 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 \$76,250,000 with lending institutions expiring in 2009. At June 30, 2008, there was a \$23,596,578 balance outstanding at 2.6875% to 6.540%. 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, 2008, the Agency had \$70,095,000 of notes payable in the Multiple Purpose Bond Program fund. These notes have interest rates ranging from 1.95% to 3.85% and mature between September 2008 and April 2009. 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, 2008 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:								
2009	\$ 3,368	522	70,095	1,031	19,669	480	93,132	2,033
2010	811	417	—	—	732	15	1,543	432
2011	200	378	—	—	—	—	200	378
2012	245	361	—	—	—	—	245	361
2013	231	345	—	—	—	—	231	345
2014-2018	3,496	1,180	—	—	—	—	3,496	1,180
2019	1,257	41	—	—	—	—	1,257	41
Total	\$ 9,608	3,244	70,095	1,031	20,401	495	100,104	4,770

A summary of line of credit borrowings and notes payable activity for the year ended June 30, 2008 is as follows (in thousands):

	Balance at June 30, 2007	Increases	Decreases	Balance at June 30, 2008	Amounts due within one year	Amounts due thereafter
Line of credit borrowings	\$ 24,982	28,039	(29,425)	23,596	22,864	732
Notes payable	56,567	70,095	(50,154)	76,508	70,268	6,240
	\$ 81,549	98,134	(79,579)	100,104	93,132	6,972

(10) Asset Restrictions

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

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

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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.

(11) 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, 2008, the Agency had a total payroll of \$2,301,019, of which \$2,284,019 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 \$240,346 for the year ended June 30, 2008, and is included in salaries and benefits expense. The Agency does not provide any postemployment benefits other than the pension plan.

(12) Gain on Bond Redemptions

During the year ended June 30, 2008, the Agency redeemed \$39,735,000 of its Single-Family Housing Program Bonds. Gain on bond redemptions of \$187,468 was recognized which represents the unamortized balance of bond premium and discount and cost of issuance expenses associated with the bonds retired.

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

	<u>Single Family Housing Program</u>
Series 8	\$ 4,890
Series 9	1,660
Series 10	890
Series 11	580
Series 12	820
Series 13	705
Series 14	1,315
Series 15	1,940
Series 16	4,500
Series 17	2,020
Series 18	2,730
Series 19	2,015
Series 20	1,250
Series 21	2,645
Series 22	2,540
Series 23	2,285
Series 24	2,275
Series 25	2,300
Series 26	2,260
Series 27	115
	<u>\$ 39,735</u>

(13) Commitments and Contingencies

At June 30, 2008, the Agency had outstanding commitments in the amount of \$9,236,182 to purchase or finance mortgage loans pursuant to its normal funding from bond proceeds. In addition, there were commitments of \$20,336,500 for general loans or future program subsidy purposes.

Under the Single Family Mortgage Programs, the Agency has obtained surety bonds in the amount of \$30,469,704 expiring between 2025 and 2038, which satisfy the requirements of certain bond resolutions.

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(14) 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.

(15) Subsequent Events

As of June 30, 2008, the Agency held \$17.7 million in guaranteed investment contracts (GICs) with AIG Matched Funding Corp. The GICs are presented as restricted cash and cash equivalents and restricted investments in the statement of net assets (\$15.7 million in Single Family programs, and \$2.0 million in Multi-Family programs). On September 29, 2008, AIG posted collateral of 104% of the account value with a third party custodian.

On September 24, 2008, the Agency issued \$50,000,000 of bonds under the Multiple Purpose Bonds indenture, 2008 Series C-1 (Fixed Rate) and Series C-2 (Variable Rate). The bond proceeds will be used to purchase single family mortgages.