



VERMONT HOUSING FINANCE AGENCY
(a component unit of the State of Vermont)

Financial Statements and
Required Supplementary Information

June 30, 2009

(With Independent Auditors' Report Thereon)

VERMONT HOUSING FINANCE AGENCY

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KPMG LLP

P.O. Box 564
Burlington, VT 05402

Suite 400
356 Mountain View Drive
Colchester, VT 05446

Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities and each major fund of the Vermont Housing Finance Agency (the Agency), a component unit of the State of Vermont, as of and for the year ended June 30, 2009, 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, 2009, 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 14, 2009

VERMONT HOUSING FINANCE AGENCY

Management's Discussion and Analysis

June 30, 2009

(Unaudited)

This section of the Vermont Housing Finance Agency's (the Agency) annual Financial Statements presents management's discussion and analysis of its financial performance and significant changes in financial position for the fiscal year ended June 30, 2009. 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 \$2.8 billion aggregate principal amount of bonds, notes and line of credit borrowings, of which \$739.1 million was outstanding as of June 30, 2009, 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.

VERMONT HOUSING FINANCE AGENCY

Management's Discussion and Analysis

June 30, 2009

(Unaudited)

The following table summarizes the net assets of the Agency as of June 30, 2009 with comparative data from the prior fiscal year.

	<u>2009</u>	<u>2008</u>	<u>Percentage change 2009 – 2008</u>
Assets:			
Cash and investments	\$ 131,828,112	200,568,394	(34.3)%
Loans receivable, net	681,004,431	705,340,994	(3.5)
Other assets	18,873,402	20,176,584	(6.5)
Total assets	<u>831,705,945</u>	<u>926,085,972</u>	<u>(10.2)</u>
Liabilities:			
Bonds and notes payable	739,087,628	828,973,611	(10.8)
Other liabilities	11,797,806	12,854,819	(8.2)
Total liabilities	<u>750,885,434</u>	<u>841,828,430</u>	<u>(10.8)</u>
Net assets:			
Invested in capital assets	1,628,361	1,593,923	2.2
Restricted:			
Bond and other requirements	62,417,750	66,371,231	(6.0)
Excess yield loans	8,455,328	8,539,071	(1.0)
Unrestricted	8,319,072	7,753,317	7.3
Total net assets	<u>\$ 80,820,511</u>	<u>84,257,542</u>	<u>(4.1)%</u>

Total assets decreased by \$94.4 million or 10.2% for the fiscal year ended June 30, 2009 when compared to the year ended June 30, 2008, primarily as a result of:

- Cash and investments decreased by \$68.7 million, or 34.3%. Significant additions to cash were the issuance of \$50.0 million in multiple-purpose bonds, and \$19.2 million of notes, and \$77.3 million of mortgage loan principal. Reductions in cash were the payment of \$92.1 million in notes and \$67.0 million of bonds, and mortgage loan originations of \$55.9 million.
- Total mortgage and construction loans receivable decreased by \$24.3 million or 3.5% for the twelve month period. Loan originations decreased by \$103.8 million or 65% compared to the prior fiscal year. In fiscal year 2009 principal collections increased by \$0.9 million or 1.1%.
- Included in restricted net assets is approximately \$8.5 million of multi-family mortgages, net of a \$1.5 million loan loss reserve, which were funded by mortgage interest income received in excess of that permitted by federal tax law (excess yield). To be in compliance with the aforementioned tax laws, the Agency believes that it may eventually forgive a portion of these loans, but that current reserves are adequate to cover such risk.

VERMONT HOUSING FINANCE AGENCY

Management's Discussion and Analysis

June 30, 2009

(Unaudited)

The following table summarizes the change in mortgage loans receivable for the year ended June 30, 2009, with comparative data from the prior fiscal year:

	Fiscal year ended June 2009	Fiscal year ended June 2008	Percentage change year to year June 2009 vs. June 2008
Mortgage loans receivable:			
Beginning balance	\$ 705,340,994	623,559,508	13.1%
Mortgage loan originations	55,931,834	159,721,796	(65.0)
Principal collections	(77,372,687)	(76,527,169)	1.10
Loans transferred to REO status	(2,162,982)	(940,445)	130.0
Loan loss provision	(732,728)	(472,696)	55.0
Ending balance	\$ <u>681,004,431</u>	<u>705,340,994</u>	<u>(3.5)%</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):

	Balance at June 30, 2008	Increases	Decreases	Balance at June 30, 2009
Bonds payable	\$ 728,869	50,000	(66,955)	711,914
Notes payable	76,508	—	(70,264)	6,244
Lines of credit borrowings	23,596	19,153	(21,819)	20,930
Total debt	\$ <u>828,973</u>	<u>69,153</u>	<u>(159,038)</u>	<u>739,088</u>

Total liabilities of the Agency decreased by \$90.9 million, or 10.8% for the fiscal year ended June 30, 2009 when compared to the year ended June 30, 2008, primarily as a net result of:

- \$50.0 million in bonds issued under the Multiple Purpose resolution.
- Fifteen multi-family construction projects received \$19.2 million in loan advances, which were financed with notes payable from lending institutions. \$21.8 million of notes were repaid.
- Two issues of Multiple Purpose Notes matured during the period, reducing notes payable by \$70.3 million.
- \$67.0 million of principal was paid on outstanding bonds payable.

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.

VERMONT HOUSING FINANCE AGENCY

Management's Discussion and Analysis

June 30, 2009

(Unaudited)

The following table summarizes the changes in net assets for the fiscal year ended June 30, 2009 with comparative data from the prior fiscal year.

	<u>2009</u>	<u>2008</u>	<u>Percentage change 2009 – 2008</u>
Operating revenues:			
Interest on loans	\$ 42,364,370	41,677,841	1.6%
Interest on investments	5,180,906	9,717,929	(46.7)
Fee income	727,525	755,469	(3.7)
Gain on bond redemptions	154,640	187,468	(17.5)
Other revenue	141,772	75,684	87.3
Total operating revenues	<u>48,569,213</u>	<u>52,414,391</u>	<u>(7.3)</u>
Operating expenses:			
Financing costs	45,194,711	43,355,316	4.2
Operational expenses	4,777,266	4,900,927	(2.5)
Mortgage servicing	1,101,184	1,394,369	(21.0)
Loan losses and property disposition	803,405	512,180	56.9
Total operating expenses	<u>51,876,566</u>	<u>50,162,792</u>	<u>3.4</u>
Operating income (loss)	<u>(3,307,353)</u>	<u>2,251,599</u>	<u>(246.9)</u>
Nonoperating revenues:			
Gain on sale of investments	384,051	—	100.0
Net depreciation in fair value of investments	(513,729)	(73,782)	596.3
Increase (decrease) in net assets	<u>(3,437,031)</u>	<u>2,177,817</u>	<u>(257.8)</u>
Net assets at beginning of year	<u>84,257,542</u>	<u>82,079,725</u>	<u>2.7</u>
Net assets at end of year	<u>\$ 80,820,511</u>	<u>84,257,542</u>	<u>(4.1)%</u>

VERMONT HOUSING FINANCE AGENCY

Management's Discussion and Analysis

June 30, 2009

(Unaudited)

The Agency's net loss for the fiscal year ended June 30, 2009 was \$3,437,031, compared to a surplus of \$2,177,817 for the fiscal year ending June 30, 2008. The change results primarily from the effects of:

- The operating loss for the period of \$3,307,353, compared to a surplus of \$2,251,599 for the comparable twelve months last year. A large portion of the change in operating results is due to decreased investment interest income of \$4,537,023, and an increase in financing costs of \$1,839,395 offset by increased mortgage loan interest income of \$686,529.
- The decrease in investment interest income by \$4.5 million, or 46.7%, from the same period last year was due to decreased reinvestment rates and a net decrease in the cash and investment portfolio balance of \$68.7 million. This decrease was primarily due to mortgage loan originations and reduction of debt.
- The increased financing costs reflect approximately \$4.5 million of interest expense paid on VHFA's variable rate debt during the twelve month period.
- Net depreciation in the fair value of investments accounted for a decrease in net assets of \$513,729 compared to net depreciation of \$73,782 in the same twelve month period of the prior year.

Budgetary Information

The Agency prepares an annual budget of income, expenses, and fund transfers (net of deferred loan origination costs and fees) for 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 2009, the Agency projected an Operating Fund budget surplus of \$9,700 and achieved an actual budget surplus of \$530,200 as a result of positive expense variances of \$323,600 net of negative income variances of \$268,500 and fund transfers \$465,400 greater than budgeted.

The addition of net deferred loan origination costs and fees of \$70,000 in fiscal year 2009 to the budget surplus of \$530,200 results in an increase in Operating Fund net assets for fiscal year 2009 of \$600,200, compared with an increase of \$243,700 in the prior period.

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, 2009

Assets	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Bond Fund	Multi- Family Mortgage Program Fund	Total
Cash and cash equivalents	\$ 5,228,147	—	—	—	5,228,147
Investments	100,000	—	—	—	100,000
Accrued interest receivable:					
Mortgage and notes	1,176,896	1,900,888	516,736	339,476	3,933,996
Investments	461	363,574	83,681	265,581	713,297
Current portion of mortgage loans receivable	271,349	9,051,409	3,522,890	2,813,340	15,658,988
Current costs of bond issuance expense	—	97,186	33,087	46,611	176,884
Current portion of deferred mortgage originating fees, net	—	389,892	185,476	—	575,368
Current receivables and prepaid expenses	182,055	1,415,190	291,031	68,652	1,956,928
Interfund receivables (payables)	789,716	163,589	(321,145)	(632,160)	—
Total current assets	<u>7,748,624</u>	<u>13,381,728</u>	<u>4,311,756</u>	<u>2,901,500</u>	<u>28,343,608</u>
Noncurrent assets:					
Restricted cash and cash equivalents	—	45,643,342	25,220,137	24,639,315	95,502,794
Restricted investments	—	25,936,167	—	5,061,004	30,997,171
Noncurrent portion of mortgage loans receivable, net	12,453,628	398,654,460	149,263,961	104,973,394	665,345,443
Deferred costs of bond issuance, net	—	2,427,197	696,042	847,484	3,970,723
Deferred mortgage origination fees, net	—	803,007	54,715	—	857,722
Noncurrent receivables and prepaid expenses	—	2,334,667	1,338,203	—	3,672,870
Land	775,000	—	—	—	775,000
Building (less accumulated depreciation of \$362,802)	638,032	—	—	—	638,032
Office furniture and fixtures (less accumulated depreciation of \$1,507,334)	215,329	—	—	—	215,329
Other assets and real estate owned	—	1,360,933	26,320	—	1,387,253
Total noncurrent assets	<u>14,081,989</u>	<u>477,159,773</u>	<u>176,599,378</u>	<u>135,521,197</u>	<u>803,362,337</u>
Total assets	\$ <u>21,830,613</u>	\$ <u>490,541,501</u>	\$ <u>180,911,134</u>	\$ <u>138,422,697</u>	\$ <u>831,705,945</u>
Liabilities and Net Assets					
Liabilities:					
Current liabilities:					
Current notes payable and lines of credit	\$ 2,505,869	—	—	18,245,450	20,751,319
Current bonds payable	10,193	10,575,000	2,955,000	3,641,603	17,181,796
Accrued interest payable	57,150	4,132,984	1,419,878	1,850,543	7,460,555
Current unamortized bond and note premium (discount), net	—	(34,077)	(49,448)	(65,288)	(148,813)
Current deferred loan origination fees	75,438	—	—	—	75,438
Accounts payable	574,228	951,924	140,934	10,290	1,677,376
Escrowed cash deposits	2,368,331	—	—	—	2,368,331
Arbitrage rebate payable	—	241,603	—	—	241,603
Total current liabilities	<u>5,591,209</u>	<u>15,867,434</u>	<u>4,466,364</u>	<u>23,682,598</u>	<u>49,607,605</u>
Noncurrent liabilities:					
Noncurrent notes payable	5,433,474	—	—	989,029	6,422,503
Noncurrent bonds payable	534,460	436,445,000	157,385,000	100,367,550	694,732,010
Unamortized bond and note premium (discount), net	—	(727,287)	13,735	(833,200)	(1,546,752)
Arbitrage rebate payable	—	1,341,987	—	4,044	1,346,031
Noncurrent deferred mortgage loan origination fees	324,037	—	—	—	324,037
Total noncurrent liabilities	<u>6,291,971</u>	<u>437,059,700</u>	<u>157,398,735</u>	<u>100,527,423</u>	<u>701,277,829</u>
Total liabilities	<u>11,883,180</u>	<u>452,927,134</u>	<u>161,865,099</u>	<u>124,210,021</u>	<u>750,885,434</u>
Net assets:					
Invested in capital assets	1,628,361	—	—	—	1,628,361
Restricted	—	37,614,367	19,046,035	14,212,676	70,873,078
Unrestricted	8,319,072	—	—	—	8,319,072
Total net assets	<u>9,947,433</u>	<u>37,614,367</u>	<u>19,046,035</u>	<u>14,212,676</u>	<u>80,820,511</u>
Total liabilities and net assets	\$ <u>21,830,613</u>	\$ <u>490,541,501</u>	\$ <u>180,911,134</u>	\$ <u>138,422,697</u>	\$ <u>831,705,945</u>

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY
Statement of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2009

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Bond Fund	Multi- Family Mortgage Program Fund	Total
Operating revenues:					
Interest income:					
Mortgage and construction loans	\$ 861,850	25,663,180	8,804,760	7,034,580	42,364,370
Investments	29,372	2,824,831	1,653,748	672,955	5,180,906
Fee income:					
Multi-Family Mortgage Programs	587,021	—	125,593	—	712,614
Single Family Mortgage Programs	14,086	65	760	—	14,911
Gain (loss) on bond redemptions	—	254,849	(100,209)	—	154,640
Other revenue	141,772	—	—	—	141,772
Total operating revenues	<u>1,634,101</u>	<u>28,742,925</u>	<u>10,484,652</u>	<u>7,707,535</u>	<u>48,569,213</u>
Operating expenses:					
Financing costs, including interest and amortization of premium, discount and costs of issuance, net					
	665,372	27,146,572	10,590,320	6,792,447	45,194,711
Mortgage service and contract administration fees	2,687	827,014	215,707	55,776	1,101,184
Salaries and benefits	3,361,430	—	—	—	3,361,430
Operating expenses	948,626	—	—	—	948,626
Professional fees	135,074	98,322	19,448	—	252,844
Trustee and assignee fees	214,366	—	—	—	214,366
Property disposition and loan loss recoveries	171,764	261,513	40,022	330,106	803,405
Total operating expenses	<u>5,499,319</u>	<u>28,333,421</u>	<u>10,865,497</u>	<u>7,178,329</u>	<u>51,876,566</u>
Operating income (loss)	(3,865,218)	409,504	(380,845)	529,206	(3,307,353)
Nonoperating revenues:					
Gain on sales of investments	—	384,051	—	—	384,051
Net appreciation (depreciation) in fair value of investments	—	(531,987)	—	18,258	(513,729)
Income (loss) before transfers	(3,865,218)	261,568	(380,845)	547,464	(3,437,031)
Net transfers to (from) operating fund	4,465,411	(7,116,331)	3,234,420	(583,500)	—
Increase (decrease) in net assets	600,193	(6,854,763)	2,853,575	(36,036)	(3,437,031)
Net assets at beginning of year	9,347,240	44,469,130	16,192,460	14,248,712	84,257,542
Net assets at end of year	<u>\$ 9,947,433</u>	<u>37,614,367</u>	<u>19,046,035</u>	<u>14,212,676</u>	<u>80,820,511</u>

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

Statement of Cash Flows

Year ended June 30, 2009

	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	\$ 856,685	25,798,580	8,662,000	7,078,210	42,395,475
Principal collections on mortgages	1,005,575	46,075,955	9,787,176	20,503,981	77,372,687
Purchases of mortgages	(992,300)	(1,561,314)	(36,372,482)	(17,005,738)	(55,931,834)
Fee income and other receipts	516,954	65	126,353	—	643,372
Salaries and benefits payments	(3,269,263)	—	—	—	(3,269,263)
Operating expense payments	(1,296,279)	(148,391)	(19,448)	(55,776)	(1,519,894)
Foreclosed property (gain) loss	8,236	205,466	(26,592)	241,893	429,003
Payment on prepaid origination fees	—	(18,550)	(444,890)	—	(463,440)
Service fee and other payments	—	(882,514)	(212,134)	—	(1,094,648)
Net cash provided by (used for) operating activities	<u>(3,170,392)</u>	<u>69,469,297</u>	<u>(18,500,017)</u>	<u>10,762,570</u>	<u>58,561,458</u>
Cash flows from investing activities:					
Proceeds from sales and maturities investments	—	2,212,571	32,802,548	—	35,015,119
Interest received on investments	41,371	3,037,941	2,501,653	806,468	6,387,433
Decrease in escrowed cash deposits	(37,617)	—	—	—	(37,617)
Cost of real estate owned	—	(956,462)	—	—	(956,462)
Proceeds from sales of real estate owned	—	1,652,454	—	—	1,652,454
Payment to IRS to rebate excess earnings	—	(152,070)	(283,676)	(105,599)	(541,345)
Net cash provided by investing activities	<u>3,754</u>	<u>5,794,434</u>	<u>35,020,525</u>	<u>700,869</u>	<u>41,519,582</u>
Cash flows from noncapital financing activities:					
Net proceeds from issuance of bonds payable	—	—	49,654,903	—	49,654,903
Principal payments on bonds	(9,526)	(41,320,000)	(21,760,000)	(3,865,657)	(66,955,183)
Interest payments on bonds and notes payable	(665,605)	(25,095,181)	(10,052,048)	(6,713,811)	(42,526,645)
Proceeds from issuance of notes payable	—	—	—	19,153,161	19,153,161
Repayment of notes payable	(1,668,701)	—	(70,095,000)	(20,320,260)	(92,083,961)
Payments to bond insurers	—	(374,679)	(109,006)	(17,458)	(501,143)
Cost of Issuance Reimbursements	386,168	—	—	—	386,168
Payments for cost of issuance	(276,821)	(82,814)	(250,106)	(42,204)	(651,945)
Transfers from (to) other funds	713,388	(2,775,515)	2,262,920	(200,793)	—
Net cash used for noncapital financing activities	<u>(1,521,097)</u>	<u>(69,648,189)</u>	<u>(50,348,337)</u>	<u>(12,007,022)</u>	<u>(133,524,645)</u>
Cash flows from capital related financing activities:					
Purchase of office furniture and fixtures	(156,075)	—	—	—	(156,075)
Net cash used for capital related financing activities	<u>(156,075)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(156,075)</u>
Net increase (decrease) in cash and cash equivalents	(4,843,810)	5,615,542	(33,827,829)	(543,583)	(33,599,680)
Cash and cash equivalents at beginning of year	10,071,957	40,027,800	59,047,966	25,182,898	134,330,621
Cash and cash equivalents at end of year	\$ <u>5,228,147</u>	<u>45,643,342</u>	<u>25,220,137</u>	<u>24,639,315</u>	<u>100,730,941</u>

VERMONT HOUSING FINANCE AGENCY

Statement of Cash Flows

Year ended June 30, 2009

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Program Fund	Multi-Family Mortgage Program Fund	Total
Reconciliation of cash flows from operating activities:					
Operating income (loss)	\$ (3,865,218)	409,504	(380,845)	529,206	(3,307,353)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	121,637	—	—	—	121,637
Amortization of discounts on bonds and notes payable, net	—	25,167	103,642	65,260	194,069
Amortization of costs of bond issuance and other fees	—	101,063	91,317	39,235	231,615
Amortization of deferred income	—	(1,233,287)	257,396	—	(975,891)
Advances for cost of issuance	276,821	—	—	—	276,821
Reimbursement for Cost of issue advances	(386,168)	—	—	—	(386,168)
Loss/(gain) on bond redemptions	—	(254,849)	100,209	—	(154,640)
Investment interest income	(29,372)	(2,824,831)	(1,653,748)	(672,955)	(5,180,906)
Bond and note interest expense	665,372	25,590,617	10,049,670	6,670,394	42,976,053
Bond insurance expense	—	386,559	88,295	17,558	492,412
Changes in assets and liabilities:					
Decrease (increase) in mortgage loans receivable	193,275	46,605,084	(26,532,039)	4,070,243	24,336,563
Increase in other assets	—	(436,480)	(26,320)	—	(462,800)
Decrease (increase) in accrued interest receivable	(5,165)	135,400	(106,976)	15,455	38,714
Decrease (increase) in other receivables and prepaid expenses	44,767	826,140	(455,303)	28,174	443,778
Increase (decrease) in deferred mortgage origination fees, net	(133,758)	447,735	(38,888)	—	275,089
Increase (decrease) in accounts payable	(52,583)	(308,517)	3,573	—	(357,527)
Net cash provided by (used for) operating activities	\$ <u>(3,170,392)</u>	<u>69,469,305</u>	<u>(18,500,017)</u>	<u>10,762,570</u>	<u>58,561,466</u>

Supplemental noncash operating/investing activities:

Mortgage loans receivable converted to real estate owned amounted to \$2,162,982 in fiscal year 2009.

Supplemental noncash financing activities:

The fair value of investments decreased \$513,729 in fiscal year 2009.

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009

(1) Authorizing Legislation and Nature of Funds

(a) *Authorizing Legislation*

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

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

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

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

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

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

(i) **Operating Fund**

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

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, 2009

(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 trustee accounts. As of June 30, 2009, reserve requirements totaled \$17,057,296 for the Single Family Mortgage Programs, \$7,939,851 for the Multi-Family Mortgage Programs and \$5,431,567 for the Multiple Purpose Programs. Amounts held in reserve accounts as of June 30, 2009 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, 2009

- *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, 2009, the allowance for loan losses totaled \$204,187 relating to Single Family mortgage loans, \$1,538,204 for Multiple Purpose mortgage loans, \$862,000 for Multi-Family mortgage loans and \$2,100,000 for operating fund mortgage loans.

Included in Multi-Family mortgage loans receivable is approximately \$8.5 million of mortgages funded by excess yield. The Agency estimates that it may be required to forgive or restructure up to this amount of these loans prior to the final maturity of the related 1999 and 2007 bond issues, in order to be in compliance with federal tax laws.

(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, 2009

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. In 2009 \$541,000 was rebated to the IRS.

(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

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009

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, 2009, were \$5.1 million. Of these, \$2.8 million were exposed to custodial credit risk as uninsured and uncollateralized.

(b) Cash and Investments

The Agency’s cash and investments at June 30, 2009 are presented below.

Investments by type

June 30, 2009

(Expressed in thousands)

<u>Investment type</u>	<u>Fair value</u>	<u>Investment maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
Cash	\$ 5,120	5,120	—	—	—
Money market	48,753	48,753	—	—	—
Certificate of deposit	100	100	—	—	—
Guaranteed investment contracts	67,000	46,858	—	—	20,142
U.S. Treasury securities	8,538	—	—	8,538	—
Government agency securities	1,658	—	—	602	1,056
Common stock	659	—	—	—	—
	<u>\$ 131,828</u>	<u>100,831</u>	<u>—</u>	<u>9,140</u>	<u>21,198</u>

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of the Agency’s investment in a single issuer. More than 5% of the Agency’s investments are invested in guaranteed investment contracts; AIG, Bayern LB, Calyon, and Transamerica. These investments are 30.3%, 22.4%, 18.2%, and 8.5%, respectively, of the Agency’s total investments. The Agency’s investment policy does not limit the amount invested in a single issue.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009

(d) Interest Rate Risk – Investments

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

(4) Mortgage and Construction Loans Receivable

(a) Single Family Mortgage Loans Receivable

Single Family mortgage loans earn interest at annual rates ranging from 4.5% 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, 2009, approximately 67% 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 1.07% to 14.00%, 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, 2009

(5) Capital Assets

Capital asset activity for the year ended June 30, 2009 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	4,475	—	654,328
Computer equipment	719,417	148,910	—	868,327
Furniture and fixtures	197,318	2,690	—	200,008
Total capital assets being depreciated	<u>2,567,422</u>	<u>156,075</u>	<u>—</u>	<u>2,723,497</u>
Less accumulated depreciation for:				
Building	(337,780)	(25,022)	—	(362,802)
Building improvements	(627,349)	(14,128)	—	(641,477)
Computer equipment	(608,249)	(72,550)	—	(680,799)
Furniture and fixtures	(175,121)	(9,937)	—	(185,058)
Total accumulated depreciation	<u>(1,748,499)</u>	<u>(121,637)</u>	<u>—</u>	<u>(1,870,136)</u>
Total capital assets being depreciated, net	<u>818,923</u>	<u>34,438</u>	<u>—</u>	<u>853,361</u>
Capital assets, net	<u>\$ 1,593,923</u>	<u>34,438</u>	<u>—</u>	<u>1,628,361</u>

Current period depreciation expense of \$121,637 was charged to the operating fund.

(6) Real Estate Owned

Real estate owned at June 30, 2009 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, 2009, the valuation allowance totaled \$180,180.

(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, 2009

(8) Bonds Payable

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

Outstanding bonds payable at June 30, 2009 are as follows:

A. Single Family Mortgage Program Fund:

Home Mortgage Purchase Program:

1989 Series B, maturing 2009, interest at 7.450%	\$ <u>380,000</u>
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Housing Program:

Series 9, maturing 2009 to 2037, interest at 4.65% to 5.400%	12,075,000
Series 10, maturing 2009 to 2030, interest at 4.45% to 5.250%	7,300,000
Series 11, maturing 2009 to 2030, interest at 5.15% to 5.950%	2,900,000
Series 12, maturing 2009 to 2031, interest at 5.60% to 6.400%	2,855,000
Series 13, maturing 2009 to 2031, interest at 5.05% to 5.970%	6,845,000
Series 14, maturing 2010 to 2032, interest at 4.625% to 6.050%	9,055,000
Series 15, maturing 2009 to 2032, interest at 4.30% to 5.375%	12,855,000
Series 16, maturing 2010 to 2033, interest at 4.75% to 5.600%	26,245,000
Series 17, maturing 2009 to 2034, interest at 3.182% to 5.100%	18,710,000
Series 18, maturing 2010 to 2034, interest at 3.50% to 4.950%	18,900,000
Series 19, maturing 2009 to 2035, interest at 2.80% to 5.000%	21,460,000
Series 20, maturing 2009 to 2035, interest at 3.85% to 5.500%	22,895,000
Series 21, maturing 2009 to 2035, interest at 2.55% to 5.000%	32,615,000
Series 22, maturing 2009 to 2035, interest at 3.65% to 5.000%	33,290,000
Series 23, maturing 2009 to 2035, interest at 3.50% to 5.000%	48,325,000
Series 24, maturing 2009 to 2036, interest at 3.70% to 5.000%	36,725,000
Series 25, maturing 2009 to 2037, interest at 3.95% to 6.000%	46,350,000
Series 26, maturing 2009 to 2038, interest at 3.65% to 5.750%	47,720,000
Series 27, maturing 2009 to 2038, interest at 3.85% to 5.500%	<u>39,520,000</u>

Total Housing Program	<u>446,640,000</u>
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Total Single Family Mortgage Program Fund	<u>447,020,000</u>
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B. Multiple Purpose Bond Program Fund:

Multiple Purpose Bonds:

2007 Series A and B, maturing 2009 to 2038, interest at 4.10% to 5.750%	60,675,000
2007 Series C, maturing 2009 to 2038, interest at 3.90% to 5.750%	64,360,000
2008 Series C, maturing 2010 to 2040, interest at 2.15% to 5.35%	<u>35,305,000</u>

Total Multiple Purpose Bonds	<u>160,340,000</u>
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VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009

C. Multi-Family Mortgage Program Fund:

Mortgage Program:

1999 Series A, maturing 2010 to 2020, interest at 4.65% to 5.125%	\$ 3,225,000
1999 Series B, maturing 2010 to 2030, interest at 5.45% to 6.000%	3,520,000
1999 Series C and D, maturing 2010 to 2021, interest at 5.15% to 5.800%	21,805,000
2000 Series A, maturing 2010 to 2039, interest at 5.900%	4,910,000
2000 Series B, C, and D, maturing 2009 to 2031, interest at 5.650% to 6.700%	2,150,000
2001 Series A, B, C, and D, maturing 2009 to 2032, interest at 5.400% to 7.270%	4,820,000
2002 Series A and B, maturing 2009 to 2039, interest at 4.55% to 7.200%	11,310,000
2003 Series A, maturing 2009 to 2043, interest at 5.050% to 5.250%	4,105,000
2003 Series C, maturing 2010 to 2034, interest at 3.60% to 5.100%	10,145,000
2004 Series A, B, and C, maturing 2009 to 2046, interest at 3.45% to 6.300%	13,805,000
2004 Series D, maturing 2009 to 2039, interest at 4.650% to 4.900%	2,680,000
2005 Series A, B, C, and D, maturing 2009 to 2035, interest at 4.400% to 5.750%	4,220,000
Total Mortgage Program	<u>86,695,000</u>

Direct Placement Program:

Northgate Housing Program:

Five series of bonds, maturing 2009 to 2031, interest at 7.085% to 9.230%	5,823,359
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Highgate Housing Program:

Two series of bonds, maturing 2009 to 2031, interest at 6.450% to 7.741%	1,032,262
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Kilbourn Mobile Home Park Bond:

Taxable bond, maturing 2009 to 2016, interest at 7.500%	188,500
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T.D. Banknorth Borrowing – Chittenden Housing Corp. Bond:

Maturing 2009 to 2012, interest at 5.410%	3,620,032
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Multi-Family variable rate demand bonds, Series 1

Maturing 2010 to 2038, interest at 4.180% to 5.490%	4,085,000
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Multi-Family variable rate demand bonds, Series 2

Maturing 2010 to 2038, interest at 3.756% to 4.610%	2,565,000
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Total Direct Placement Programs	<u>17,314,153</u>
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Total Multi-Family Mortgage Program Fund	<u>104,009,153</u>
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D. Operating Fund:

Northgate Housing Site Acquisition, maturing 2009 to 2031, interest at 7%	544,653
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Total bonds payable	<u>\$ 711,913,806</u>
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All calendar year 2009 maturities on bonds payable occur after June 30, 2009.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009

Future maturities on bonds payable as of June 30, 2009 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:						
2010	\$ 3,060	4,736	582	743	2,955	7,693
2011	3,230	4,580	567	703	3,510	7,566
2012	3,375	4,410	334	783	3,650	7,416
2013	3,500	4,230	3,830	744	3,355	7,260
2014	3,140	4,050	323	694	3,195	7,111
2015 – 2019	19,095	17,231	2,088	3,102	17,025	33,269
2020 – 2024	14,385	12,011	2,246	2,396	21,965	28,607
2025 – 2029	12,325	8,750	2,954	1,629	27,605	22,451
2030 – 2034	13,900	5,080	2,695	690	33,380	14,922
2035 – 2039	8,875	1,725	1,695	172	41,010	5,332
2040 – 2044	1,470	242	—	—	2,690	60
2045 – 2046	340	28	—	—	—	—
Total	\$ 86,695	67,073	17,314	11,656	160,340	141,687

	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:								
2010	\$ 380	14	10,195	20,980	10	38	17,182	34,204
2011	—	—	10,645	20,550	11	37	17,963	33,436
2012	—	—	10,575	20,087	12	37	17,946	32,733
2013	—	—	10,700	19,615	13	36	21,398	31,885
2014	—	—	11,210	19,129	13	35	17,881	31,019
2015 – 2019	—	—	68,495	86,990	82	159	106,785	140,751
2020 – 2024	—	—	83,350	69,076	115	127	122,061	112,217
2025 – 2029	—	—	92,945	48,238	162	80	135,991	81,148
2030 – 2034	—	—	103,375	24,275	127	18	153,477	44,985
2035 – 2039	—	—	45,150	3,909	—	—	96,730	11,138
2040 – 2044	—	—	—	—	—	—	4,160	302
2045 – 2046	—	—	—	—	—	—	340	28
Total	\$ 380	14	446,640	332,849	545	567	711,914	553,846

A summary of bonds payable, discount on bonds, and premium on bonds and arbitrage rebate payable activity for the year ended June 30, 2009 is as follows (in thousands):

	Balance at June 30, 2008	Increases	Decreases	Balance at June 30, 2009	Amounts due within one year	Amounts due thereafter
Bonds payable	\$ 728,869	50,000	(66,955)	711,914	17,182	694,732
Discount on bonds	(6,480)	(345)	733	(6,092)	(319)	(5,773)
Premium on bonds	5,318	—	(921)	4,397	170	4,227
Arbitrage rebate payable	1,806	477	(695)	1,588	242	1,346

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009

The Agency has entered into interest rate swap agreements with counterparties in connection with the Single Family Housing Bonds Variable Rate Demand Bonds (VRDB) 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, 2009, 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:				
2010	\$ 842	4,318	5,034	10,194
2011	1,172	4,299	5,001	10,472
2012	1,135	4,268	4,780	10,183
2013	1,200	4,247	4,741	10,188
2014	1,255	4,224	4,700	10,179
2015 – 2019	18,045	19,696	22,209	59,950
2020 – 2024	26,560	15,163	17,902	59,625
2025 – 2029	27,950	10,213	12,778	50,941
2030 – 2034	34,400	5,223	7,508	47,131
2035 – 2039	23,375	644	2,148	26,167
2040	2,690	5	52	2,747
	<u>\$ 138,624</u>	<u>72,300</u>	<u>86,853</u>	<u>297,777</u>

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009

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, 2009	
Series 17	VRDB	4/23/2003	\$ 5,420,000	5/1/2019	—	3.182	70% of LIBOR	\$ (273,122)
Series 19	VRDB	4/8/2004	6,900,000	11/1/2027	—	3.492	70% of LIBOR	(513,575)
Series 20	VRDB	8/12/2004	7,000,000	5/1/2028	11/1/2014	4.166	70% of LIBOR	(707,727)
Series 21	VRDB	11/30/2004	10,250,000	5/1/2029	—	3.682	SIFMA + 0.10% (if LIBOR < 3.00%) 68% of LIBOR (if LIBOR > 3.00%)	(871,315)
Series 22	VRDB	6/8/2005	13,800,000	11/1/2034	5/1/2012	3.731	65% of LIBOR	(808,691)
Series 23	VRDB	10/26/2005	14,500,000	11/1/2034	11/1/2014	3.569	65% of LIBOR + 0.28%	(800,253)
Series 24	VRDB	4/19/2006	10,440,000	11/1/2035	5/1/2015	3.973	65% of LIBOR + 0.28%	(852,292)
Series 25	VRDB	7/12/2006	12,945,000	11/1/2036	11/1/2015	4.251	65% of LIBOR + 0.28%	(1,404,848)
Series 26	VRDB	10/26/2006	13,450,000	5/1/2037	5/1/2016	3.897	65% of LIBOR + 0.28%	(1,139,424)
MP2007 A	VRDB	7/24/2007	12,800,000	5/1/2037	5/1/2017	4.197	65% of LIBOR + 0.28%	(1,450,865)
MP2007 C	VRDB	9/12/2007	16,500,000	11/1/2037	5/1/2017	3.990	65% of LIBOR + 0.28%	(1,592,978)
MP2008 C	VRDB	9/24/2008	11,980,000	5/1/2040	—	3.167	SIFMA + 0.05%	(321,912)
TD BankNorth Chittenden Housing		6/28/2006	3,620,032	6/28/2011	—	5.410	69% of LIBOR	(221,808)
Series 1-A	VRDB	1/25/2007	635,000	1/1/2022	—	4.240	SIFMA + 0.15%	(55,073)
Series 1-B	VRDB	1/25/2007	1,740,000	1/1/2022	—	4.180	SIFMA + 0.10%	(148,844)
Series 1-C	VRDB	1/25/2007	1,710,000	1/1/2022	—	5.490	LIBOR + 0.05%	(269,580)
Series 2-A	VRDB	1/24/2008	1,295,000	1/5/2023	—	3.800	SIFMA + 0.15%	(54,248)
Series 2-B	VRDB	1/24/2008	270,000	1/5/2023	—	3.756	SIFMA + 0.10%	(11,408)
Series 2-C	VRDB	1/24/2008	1,000,000	1/5/2023	—	4.610	LIBOR + 0.05%	(76,795)
			<u>\$ 146,255,032</u>					<u>\$ (11,574,758)</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.

VERMONT HOUSING FINANCE AGENCY

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June 30, 2009

(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, 2009, the Agency had outstanding borrowings totaling \$5,744,342 which are secured by mortgage loans with a carrying value of \$6,300,425. These borrowings have interest rates ranging from 6.32% to 7.66% and mature through November 2018.

The Agency is operating under unsecured variable rate lines of credit that total \$70,050,000 with lending institutions expiring in 2010. At June 30, 2009, there was a \$20,929,579 balance outstanding at 1.07% to 4.44%. 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 4.5%, maturing in February 2010. The note is uncollateralized.

Future maturities on notes payable and line of credit borrowings as of June 30, 2009 are as follows (in thousands):

	Operating Fund		Multi Family Direct Placement Program		Agency totals	
	Principal	Interest	Principal	Interest	Principal	Interest
	Year ending June 30:					
2010	\$ 2,506	464	18,246	359	20,752	823
2011	200	378	989	17	1,189	395
2012	244	363	—	—	244	363
2013	230	346	—	—	230	346
2014	248	328	—	—	248	328
2015 – 2019	4,511	895	—	—	4,511	895
Total	\$ 7,939	2,774	19,235	376	27,174	3,150

A summary of line of credit borrowings and notes payable activity for the year ended June 30, 2009 is as follows (in thousands):

	Balance at June 30, 2008	Increases	Decreases	Balance at June 30, 2009	Amounts due within one year	Amounts due thereafter
Line of credit borrowings	\$ 23,596	19,153	(21,819)	20,930	19,940	990
Notes payable	76,508	—	(70,264)	6,244	811	5,433
	\$ 100,104	19,153	(92,083)	27,174	20,751	6,423

(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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June 30, 2009

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) Retirement Plan

Upon meeting certain eligibility requirements, the Agency's employees are eligible to participate in the Vermont Housing Finance Agency 403(b) Plan, a noncontributory defined contribution pension plan. For the year ended June 30, 2009, the Agency had a total payroll of \$2,337,339, of which \$2,290,009 was covered by the pension plan. The Agency's contribution to the Plan is 10% of the covered payroll. Employees are 30% vested in benefits under the plan upon hire, and vest in the remaining 70% on a pro-rata basis over the next five years of service. Forfeitures on nonvested benefits by terminated employees reduce the Agency's contribution. The cost of the plan was \$239,640 for the year ended June 30, 2009, and is included in salaries and benefits expense. The Agency does not provide any postemployment benefits other than the 403(b) plan.

(12) Gain on Bond Redemptions

During the year ended June 30, 2009, the Agency redeemed \$30,180,000 of its Single-Family Housing Program Bonds, and \$19,770,000 of its Multiple Purpose Bonds. A gain on bond redemptions of \$154,640 was recognized which represents the unamortized balance of bond premium and discount and cost of issuance costs associated with the bonds retired.

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June 30, 2009

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

Single Family Housing Program:	
Series 9	\$ 1,320,000
Series 10	960,000
Series 11	505,000
Series 12	320,000
Series 13	885,000
Series 14	880,000
Series 15	790,000
Series 16	2,770,000
Series 17	1,655,000
Series 18	1,935,000
Series 19	1,880,000
Series 20	1,645,000
Series 21	2,715,000
Series 22	2,005,000
Series 23	1,925,000
Series 24	1,845,000
Series 25	2,085,000
Series 26	2,320,000
Series 27	1,740,000
	<u>30,180,000</u>
	<u>\$ 30,180,000</u>
Multiple Purpose Bonds:	
2007 Series A, B	\$ 3,430,000
2007 Series C	1,645,000
2008 Series C	14,695,000
	<u>19,770,000</u>
	<u>\$ 19,770,000</u>

(13) Commitments and Contingencies

At June 30, 2009, the Agency had outstanding commitments in the amount of \$5,494,678 to purchase or finance mortgage loans pursuant to its normal funding from bond proceeds. In addition, there were commitments of \$33,900,000 for general loans or future program subsidy purposes.

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

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009

(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 Event

On July 28, 2009, the Agency securitized \$41.2 million of Single Family mortgage loans receivable with Freddie Mac; \$35.5 million from the Single Family Housing Program, and \$5.7 million from the Multiple Purpose Bonds program. The mortgage backed securities (MBS) issued in exchange for the loans will amortize principal and interest over the terms of the underlying mortgages and will be carried as investments in the respective programs.

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

On August 26, 2009 VHFA made its first distribution under Section 1602 of the American Recovery and Reinvestment Tax Act of 2009 which authorized the United States Department of the Treasury to issue grants to State housing credit agencies in lieu of low-income housing credits. The program allows states to exchange up to 100% of returned and unused pre-2009 ceiling credits and 40% of 2009 per capita and national pool credits for cash. VHFA will administer the distribution of the cash to eligible housing developments to pay for capital items. As of September 1, 2009, VHFA had exchanged \$1.4 million of credits for \$11.7 million in cash, and made distributions of \$462,470.

On June 15, 2009 VHFA signed a memorandum of agreement with the State of Vermont to administer \$7 million out of \$19.6 million of Neighborhood Stabilization Program (NSP) funds allocated to the State under the Federal Housing and Economic Recovery Act of 2008. VHFA's portion to administer is called the Homeownership Acquisition and Rehabilitation Program (HARP). The NSP-HARP funds will be used to purchase foreclosed 1 to 4 unit residential properties, to pay for any required rehabilitation and related costs, and to find eligible buyers or renters. VHFA received its initial funding from the State of Vermont on July 27, 2009 and purchased the first property under the NSP-Harp program on August 5, 2009.