# VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Financial Statements and
Required Supplementary Information

June 30, 2018

(With Independent Auditor's Report Thereon)

**VERMONT HOUSING FINANCE AGENCY**
(A Component Unit of the State of Vermont)

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## Independent Auditor's Report

The Honorable Douglas R. Hoffer
State Auditor of the State of Vermont
And
The Commissioners
Vermont Housing Finance Agency

We have audited the accompanying financial statements of Vermont Housing Finance Agency (the Agency) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

CohnReznick LLP

Baltimore, Maryland
September 26, 2018

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, 2018. 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 approximately $3.6 billion of bonds and notes, of which $443.3 million was outstanding as of June 30, 2018, 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 backed securities (MBS) or 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 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 Position, Statement of Revenues, Expenses and Changes in Net Position 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 Position

The Agency's Statement of Net Position consists primarily of Single Family and Multi-Family mortgage loans, MBS, cash and investments, and related bonds and notes payable. It also includes a portfolio of mortgage and construction loans financed through its Operating Fund, as well as a variety of other assets such as capital assets, other receivables, and real estate owned.

Cash and investments are used to fund loan and MBS purchases, bond debt service, and reserve funds, and are typically held in guaranteed investment contracts or other investment vehicles, as authorized in accordance with the Agency's investment policy.


(Continued)

The following table summarizes the Net Position of the Agency as of June 30, 2018 with comparative data from the prior fiscal year (dollars in thousands):

| | 2018 | 2017 | Percentage change |
|---|---|---|---|
| Assets: | | | |
| Cash and investments | $ 95,432 | 66,217 | 44.1% |
| Mortgage loans receivable, net | 250,518 | 265,783 | (5.7) |
| Mortgage backed securities | 185,402 | 178,462 | 3.9 |
| Other assets | 4,626 | 5,193 | (10.9) |
| Total assets | 535,978 | 515,655 | 3.9 |
| Deferred Outflows of Resources: | | | |
| Interest rate swap agreements | 873 | 1,583 | (44.9) |
| Liabilities: | | | |
| Bond and notes payable | 443,264 | 420,461 | 5.4 |
| Other liabilities | 7,573 | 8,778 | (13.7) |
| Total liabilities | 450,837 | 429,239 | 5.0 |
| Net position: | | | |
| Invested in capital assets | 687 | 688 | (0.1) |
| Restricted for bond resolutions | 75,462 | 78,816 | (4.3) |
| Restricted for special purpose loans | 2,838 | 2,193 | 29.4 |
| Unrestricted | 7,027 | 6,302 | 11.5 |
| Total net position | $ 86,014 | 87,999 | (2.3)% |

Total assets increased by $20.3 million for the fiscal year ended June 30, 2018 when compared to the year ended June 30, 2017, primarily as a result of:

- Overall cash and investments increased by $29.2 million or 44.1% from June 30, 2017. The increase is primarily comprised of a net increase of $26.4 million in new lendable funds, resulting from the Multiple Purpose 2018 A bond deal which closed in June 2018, and a net increase of $5 million in funds that will be used to call bonds at the next debt service in July.

Mortgage loans receivable decreased a net of $15.3 million or 5.7% and is partially offset by the increase in mortgage backed securities of $6.9 million or 3.9% and can be summarized as follows:

- Total loan originations in the fiscal year were $96.7 million, vs. $120.1 million for the same twelve month period last fiscal year.
- The change in multi-family portfolio includes $25.1 million in loan originations and $22.7 million in principal collections and payoffs.
- Total single family loan production for the fiscal year was $71.6 million and is comprised of $40.9 million in TBA securitization (229 loans), $29.2 million in Mortgage Backed Securities (210 loans), and $1.5 million in Down Payment Assistance loans (319 loans).
- The single family portfolio change includes $34.4 million in whole loan and MBS principal collections and payoffs.
- The amount of loans transferred to REO for the year was $1.3 million.
- Beginning in fiscal year 2010, the Agency ceased originating single family whole loans and began pooling loans into mortgage backed securities. Consequently, as the single family whole loan portfolio pays down, whole loans as a percentage of the total single family portfolio will continue to decrease.

The following table summarizes the change in net mortgage loans receivable for the years ended June 30, 2018 and 2017 (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Beginning balance | $ 265,783 | 289,799 |
| Whole loan originations | 25,106 | 42,598 |
| Down Payment Assistance loans | 1,470 | 1,468 |
| Principal collections | (40,302) | (67,980) |
| Loans transferred to REO status | (1,303) | (1,538) |
| Loan loss provision | (236) | 1,436 |
| Ending balance | $ 250,518 | 265,783 |

The following table summarizes the change in mortgage backed securities for the year ended June 30, 2018 (in thousands):

| | **2018** |
|---|---|
| Beginning balance | $ 178,462 |
| MBS Purchases | 29,217 |
| Principal Paydowns on MBS | (16,802) |
| TBA Purchases | 40,876 |
| TBA Sold | (41,338) |
| Gain on TBA Sold | 462 |
| Depreciation in fair value | (5,475) |
| Ending balance | $ 185,402 |

Total liabilities of the Agency increased by $21.6 million, or 5.0% for the fiscal year end June 30, 2018 when compared to the year ended June 30, 2017.

Activity related to bonds and notes payable can be summarized as follows:

- In October 2017, the Agency issued $31.4 million of Multiple Purpose Bonds. The proceeds of the Multiple Purpose Series 2017 C and D sale were used to purchase approximately $25.3 million in mortgage backed securities and to refund Multiple Purpose 2007 Series A.
- In June 2018, the Agency issued $35 million of Multiple Purpose Bonds. The proceeds of the Multiple Purpose Series 2018 A will be used to purchase approximately $30.3 million in mortgage backed securities and to refund Multiple Purpose 2008 Series C on July 20, 2018.
- Total principal payments on bonds were $49.6 million.
    - Bonds redeemed prior to maturity as a result of mortgage loan prepayments were $31.4 million including $835 thousand in Single Family Housing Bonds, $23.0 million in Multiple Purpose Bonds, $5.5 million Mortgage Revenue Bonds and $2.0 million in Multi-Family Mortgage Bonds.
    - Multiple Purpose Bonds redeemed as a result of refunding were $6.5 million.
    - Bonds redeemed as result of scheduled maturities were $11.7 million.
- Notes payable increased $5.3 million due primarily to $2.6 million net increase in borrowing from the Federal Home Loan Bank, $1.6 million net increase in notes payable to Federal Financing Bank, and a $1.6 million net increase in lines of credit used to fund construction loans.

**Discussion of Changes in Statement of Revenues, Expenses and Changes in Net Position**

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 fiscal year ended June 30, 2018 with comparative data from the prior fiscal year (dollars in thousands):

| | 2018 | 2017 | Percentage change |
|---|---|---|---|
| Operating revenues: | | | |
| Interest on investments | $ 1,157 | 1,035 | 11.8% |
| Interest on mortgage loans | 13,936 | 15,104 | (7.7) |
| Interest on mortgage backed securities | 5,746 | 5,491 | 4.6 |
| Fee income | 1,158 | 1,178 | (1.7) |
| Sales of state tax credits | 594 | 594 | — |
| Gain on sales of loans and securities | 462 | 478 | (3.3) |
| Gain on bond redemptions | 706 | 595 | 18.7 |
| Other revenue, net | 155 | 253 | (38.7) |
| Total operating revenues | 23,914 | 24,728 | (3.3) |
| Operating expenses: | | | |
| Financing costs | 14,229 | 15,297 | (7.0) |
| Mortgage servicing expenses | 259 | 296 | (12.5) |
| Operational expenses | 5,033 | 4,779 | 5.3 |
| Loan loss expenses, net | 910 | (886) | — |
| Total operating expenses | 20,431 | 19,486 | 4.8 |
| Operating income | 3,483 | 5,242 | (33.6) |
| Nonoperating revenues (expenses): | | | |
| Net depreciation in fair value of investments | (5,847) | (7,077) | (17.4) |
| Other nonoperating revenue | 379 | 1,000 | (62.1) |
| Federal programs: | | | |
| Program revenue | 2,745 | 2,691 | 2.0 |
| Program expenses | (2,696) | (2,643) | 2.0 |
| Administration and period costs | (49) | (48) | 2.1 |
| Total nonoperating revenues | (5,468) | (6,077) | (10.0) |
| Decrease in net position | $ (1,985) | (835) | 137.7 |

The Agency reported net operating income of $3.5 million for the fiscal year ended June 30, 2018, compared to net operating income of $5.2 million for the same period last year. After the change in market value of investments and the impact of the Federal Grant Programs, the overall net decrease for the fiscal year ended June 30, 2018 is $2 million compared with a net decrease of $835 thousand for the same period last year. Income and expense highlights include:

- Interest income on multi-family loans increased by $101 thousand. Interest income on single family loans decreased by $1.3 million. The decrease for the single family loans reflects normal portfolio runoff and loan prepayments that are not being offset by whole loan originations due to the transition to the MBS and TBA strategies. The overall change in interest income on loans was a decrease of 7.7%.

- Interest income on investments and MBS increased by $377 thousand or 5.8% due in large part to increased interest on a larger portfolio of mortgage backed securities as well as increased interest rates on investments.

- The gain on sale of loans and securities is $462 thousand sold under the TBA program. There was a decrease in loans securitized and sold using the TBA program during the fiscal year ended June 30, 2018, partially due to having more MRB funds available.

- Financing costs decreased $1.1 million or 7.0% relative to the same period last year largely due to the reduction in the Agency's bond portfolio. In addition to the reduction in bond interest expense, financing costs decreased due to the replacement of variable rate bonds with fixed rate bonds. Compared to the same period last year, the liquidity and remarketing fees related to two refunded bond issues decreased by $123 thousand.

  With the adoption of GASB 65, bond closing costs related to bond issuance are expensed rather than capitalized and amortized. In FY18, financing costs related to the issuance of Multiple Purpose 2017 CD bonds and Multiple Purpose 2018 A bonds totaled $796 thousand. Compared to the same period last year, cost of issuance and underwriter's fees related to the issuance of Multiple Purpose 2016 CD and Multiple Purpose 2017 AB bonds totaled $712 thousand.

- Operational expenses were reported at $5 million, up $254 thousand or 5.3%. The increase is due primarily to increases in salaries and benefits of $181 thousand and home ownership center grants of $60 thousand.

- Loan and REO write offs, net of reserve adjustments, were $910 thousand for the fiscal year ended June 30, 2018, mostly related to single family loans. This includes a $24 thousand decrease in the REO valuation reserve, actual distressed property related expenses of $699 thousand and an increase in the general loan loss reserve of $235 thousand. This is an increase of $1.8 million over last year due to a one time reduction in the general loan loss reserve in FY2017.

## Budgetary Information

The Agency prepares an annual budget of income, expenses, and fund transfers for the General Fund component of its Operating Fund. The budget is prepared by staff, and reviewed and approved prior to the start of the fiscal year by the Agency's Board of Commissioners.

The Agency relies on fund transfers from bond programs and General Fund unrestricted cash to bridge the gap between annual operating expenses and operating income.

For fiscal year 2018, the Agency budgeted $1.4 million in operating revenues and $4.9 million in operating expenses. Actual operating revenues of $1.9 million were over budget for two main reasons: (1) Fee income of $189 thousand was not budgeted for state bond issuer fee and (2) Gain on sale of loans and securities was $125 thousand over budget due to stronger than budgeted performance using the TBA program. The Down Payment Assistance Program continued to have a positive impact on TBA production. Actual operating expenses of $4.9 million were on budget.

## 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 information, please contact the Chief Financial Officer at VHFA, 164 St. Paul St., Burlington, VT 05401 or visit our website at www.vhfa.org.

**VERMONT HOUSING FINANCE AGENCY**

(A Component Unit of the State of Vermont)

Statement of Net Position

June 30, 2018

*(in thousands)*

| **Assets** | **Operating Fund** | **Single Family Mortgage Program Fund** | **Multiple Purpose Bond Fund** | **Multi-Family Mortgage Program Fund** | **Total** |
|---|---|---|---|---|---|
| Current assets: | | | | | |
| Cash and cash equivalents | | | | | |
| Unrestricted | $ 279 | — | — | — | 279 |
| Restricted | 4,551 | 8,238 | 50,135 | 8,524 | 71,448 |
| Accrued interest receivable: | | | | | |
| Investments | 27 | 50 | 98 | 39 | 214 |
| Mortgage loans | 1,282 | 30 | 689 | 297 | 2,298 |
| Mortgage backed securities | — | 170 | 328 | — | 498 |
| Investments maturing within one year | 1,095 | 3,757 | 10,343 | 3,624 | 18,819 |
| Current portion of mortgage loans receivable | 2,139 | 194 | 5,008 | 13,718 | 21,059 |
| Current portion of mortgage backed securities | — | 1,685 | 3,109 | — | 4,794 |
| Other receivables and prepaid expenses | 76 | 26 | 489 | 24 | 615 |
| Due from (to) other funds | (4) | — | 4 | — | — |
| Total current assets | 9,445 | 14,150 | 70,203 | 26,226 | 120,024 |
| Noncurrent assets: | | | | | |
| Investments | 1,963 | 170 | 801 | 1,952 | 4,886 |
| Mortgage loans receivable, net | 33,980 | 4,159 | 116,931 | 74,389 | 229,459 |
| Mortgage backed securities | — | 57,601 | 123,007 | — | 180,608 |
| Capital assets | 687 | — | — | — | 687 |
| Real estate owned | 103 | — | 211 | — | 314 |
| Total noncurrent assets | 36,733 | 61,930 | 240,950 | 76,341 | 415,954 |
| Total assets | 46,178 | 76,080 | 311,153 | 102,567 | 535,978 |
| **Deferred Outflows of Resources** | | | | | |
| Accumulated decrease in fair value of hedging derivatives - Interest rate swaps | — | 159 | 304 | 410 | 873 |
| **Liabilities** | | | | | |
| Current liabilities: | | | | | |
| Notes payable | 3,131 | — | — | 4,794 | 7,925 |
| Current portion of bonds payable | — | 2,113 | 8,589 | 1,948 | 12,650 |
| Accrued interest payable | 60 | 705 | 1,296 | 717 | 2,778 |
| Other payables | 353 | 1 | 63 | 25 | 442 |
| Funds held on behalf of mortgagors | 2,859 | — | — | — | 2,859 |
| Total current liabilities | 6,403 | 2,819 | 9,948 | 7,484 | 26,654 |
| Noncurrent liabilities: | | | | | |
| Notes payable | 28,950 | — | — | 10,144 | 39,094 |
| Bonds payable, net of current portion | — | 61,694 | 253,854 | 68,047 | 383,595 |
| Fair value of derivative instrument - interest rate swaps | — | 159 | 304 | 410 | 873 |
| Other liabilities | 273 | — | — | 348 | 621 |
| Total noncurrent liabilities | 29,223 | 61,853 | 254,158 | 78,949 | 424,183 |
| Total liabilities | 35,626 | 64,672 | 264,106 | 86,433 | 450,837 |
| **Net Position** | | | | | |
| Invested in capital assets | 687 | — | — | — | 687 |
| Restricted for bond resolutions | — | 11,567 | 47,351 | 16,544 | 75,462 |
| Restricted for special purpose loans | 2,838 | — | — | — | 2,838 |
| Unrestricted | 7,027 | — | — | — | 7,027 |
| Total net position | $ 10,552 | 11,567 | 47,351 | 16,544 | 86,014 |

See accompanying notes to financial statements.

**VERMONT HOUSING FINANCE AGENCY**
(A Component Unit of the State of Vermont)

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2018

*(in thousands)*

| | Operating Fund | Single Family Mortgage Program Fund | Multiple Purpose Bond Fund | Multi-Family Mortgage Program Fund | Total |
|---|---|---|---|---|---|
| Operating revenues: | | | | | |
| Interest income: | | | | | |
| Investments | $ 83 | 374 | 498 | 202 | 1,157 |
| Mortgage loans | 1,394 | 262 | 7,490 | 4,790 | 13,936 |
| Mortgage backed securities | — | 2,150 | 3,596 | — | 5,746 |
| Fee income | 1,048 | — | 49 | 61 | 1,158 |
| Sales of state tax credits | 594 | — | — | — | 594 |
| Gain on sales of loans and securities | 462 | — | — | — | 462 |
| Gain on bond redemptions, net | — | 30 | 676 | — | 706 |
| Other revenue | 155 | — | — | — | 155 |
| Total operating revenues | 3,736 | 2,816 | 12,309 | 5,053 | 23,914 |
| Operating expenses: | | | | | |
| Financing costs, including interest expense and amortization of bond premium and discount, net | 760 | 1,879 | 8,516 | 3,074 | 14,229 |
| Mortgage service and contract administration fees | — | 11 | 248 | — | 259 |
| Salaries and benefits | 3,633 | — | — | — | 3,633 |
| Operating expenses | 1,033 | 4 | 8 | 24 | 1,069 |
| Professional fees | 109 | 33 | 32 | 24 | 198 |
| Trustee and assignee fees | 133 | — | — | — | 133 |
| Provision for losses on loans and real estate owned | 116 | 95 | 699 | — | 910 |
| Total operating expenses | 5,784 | 2,022 | 9,503 | 3,122 | 20,431 |
| Operating income (loss) | (2,048) | 794 | 2,806 | 1,931 | 3,483 |
| Nonoperating revenues (expenses): | | | | | |
| Net depreciation in fair value of investments | (37) | (1,974) | (3,781) | (55) | (5,847) |
| Other nonoperating revenue | 379 | — | — | — | 379 |
| Federal programs: | | | | | |
| Program revenue | 2,745 | — | — | — | 2,745 |
| Program expenses | (2,696) | — | — | — | (2,696) |
| Administration and period costs | (49) | — | — | — | (49) |
| Total nonoperating revenues (expenses) | 342 | (1,974) | (3,781) | (55) | (5,468) |
| Income (loss) before transfers | (1,706) | (1,180) | (975) | 1,876 | (1,985) |
| Net transfers from (to) other funds | 3,075 | (480) | (2,556) | (39) | — |
| Increase (decrease) in net position | 1,369 | (1,660) | (3,531) | 1,837 | (1,985) |
| Net position: | | | | | |
| Net position at beginning of year | 9,183 | 13,227 | 50,882 | 14,707 | 87,999 |
| Net position at end of year | $ 10,552 | 11,567 | 47,351 | 16,544 | 86,014 |

See accompanying notes to financial statements.

**VERMONT HOUSING FINANCE AGENCY**

(A Component Unit of the State of Vermont)

Statement of Cash Flows

Year ended June 30, 2018

*(in thousands)*

| | Operating Fund | Single Family Mortgage Program Fund | Multiple Purpose Program Fund | Multi-Family Mortgage Program Fund | Total |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Mortgage loans interest receipts | $ 1,380 | 263 | 7,585 | 4,694 | 13,922 |
| MBS interest receipts | — | 2,173 | 3,540 | — | 5,713 |
| Mortgage loans principal collections | 1,871 | 568 | 17,429 | 20,435 | 40,303 |
| MBS sales and paydowns | — | 7,715 | 9,087 | — | 16,802 |
| Mortgage loan originations | (7,829) | — | — | (18,764) | (26,593) |
| MBS purchases, net | — | — | (29,487) | — | (29,487) |
| Fee income and other receipts | 2,266 | — | 49 | — | 2,315 |
| Salaries and benefits payments | (3,626) | — | — | — | (3,626) |
| Operating expense payments | (1,188) | (35) | (11) | (27) | (1,261) |
| Service fee and other payments | — | (11) | (248) | — | (259) |
| Other nonoperating revenue | 379 | — | — | — | 379 |
| Federal program receipts | 2,745 | — | — | — | 2,745 |
| Federal program expenditures | (2,745) | — | — | — | (2,745) |
| Operating transfers from (to) other funds | — | — | 1,056 | (1,056) | — |
| Net cash (used in) provided by operating activities | (6,747) | 10,673 | 9,000 | 5,282 | 18,208 |
| Cash flows from investing activities: | | | | | |
| Investment sales | 505 | 13,627 | 46,932 | 2,962 | 64,026 |
| Investment purchases | (3,500) | (12,847) | (53,188) | (3,033) | (72,568) |
| Investment interest receipts | 57 | 357 | 476 | 199 | 1,089 |
| Decrease in funds held on behalf of mortgagors | (9) | — | — | — | (9) |
| Sales of distressed properties | 39 | 58 | 1,613 | — | 1,710 |
| Distressed property expenditures | (36) | (25) | (610) | — | (671) |
| Net cash (used in) provided by investing activities | (2,944) | 1,170 | (4,777) | 128 | (6,423) |
| Cash flows from noncapital financing activities: | | | | | |
| Bond and note interest payments | (730) | (1,969) | (7,933) | (3,079) | (13,711) |
| Bond principal payments | — | (8,475) | (36,434) | (4,019) | (48,928) |
| Repayment of notes | (1,193) | — | — | (18,441) | (19,634) |
| Bond issue proceeds | — | (53) | 67,153 | 3 | 67,103 |
| Increase in notes payable | 6,404 | — | — | 18,563 | 24,967 |
| Financing costs other than interest | (27) | (9) | (643) | (52) | (731) |
| Noncapital financing transfers from (to) other funds | 3,253 | (480) | (2,559) | (214) | — |
| Net cash provided by (used in) noncapital financing activities | 7,707 | (10,986) | 19,584 | (7,239) | 9,066 |
| Cash flows from capital related financing activities: | | | | | |
| Net cash used in capital related financing activities | (77) | — | — | — | (77) |
| Net (decrease) increase in cash and cash equivalents | (2,061) | 857 | 23,807 | (1,829) | 20,774 |
| Cash and cash equivalents at beginning of year | 6,891 | 7,381 | 26,328 | 10,353 | 50,953 |
| Cash and cash equivalents at end of year | $ 4,830 | 8,238 | 50,135 | 8,524 | 71,727 |



(Continued)

**VERMONT HOUSING FINANCE AGENCY**

(A Component Unit of the State of Vermont)

Statement of Cash Flows - Continued

Year ended June 30, 2018

*(in thousands)*

| | Operating Fund | Single Family Mortgage Program Fund | Multiple Purpose Program Fund | Multi-Family Mortgage Program Fund | Total |
|---|---|---|---|---|---|
| Reconciliation of cash flows from operating activities: | | | | | |
| Net operating (loss) income | $ (2,048) | 794 | 2,806 | 1,931 | 3,483 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | | |
| Depreciation | 78 | — | — | — | 78 |
| Financing costs other than interest | 28 | 9 | 642 | 52 | 731 |
| Investment interest income | (83) | (374) | (498) | (201) | (1,156) |
| Sales of distressed properties | (39) | (58) | (1,613) | — | (1,710) |
| Distressed property expenditures | 21 | 81 | 980 | — | 1,082 |
| Bond and note interest expense | 732 | 1,872 | 7,874 | 3,021 | 13,499 |
| Gain on bond redemptions | — | (30) | (676) | — | (706) |
| Depreciation in fair value of investments | — | (1,992) | (3,752) | — | (5,744) |
| Other nonoperating revenue | 379 | — | — | — | 379 |
| Changes in assets and liabilities: | | | | | |
| (Increase) decrease in accrued interest receivable | (16) | 23 | 39 | (158) | (112) |
| (Increase) decrease in mortgage loans receivable | (5,823) | 640 | 19,817 | 615 | 15,249 |
| (Increase) decrease in mortgage backed securities | — | 9,707 | (16,647) | — | (6,940) |
| Decrease in other receivables and prepaid expenses | 15 | 4 | 2 | 1 | 22 |
| Increase in other liabilities | 10 | — | — | — | 10 |
| (Decrease) increase in other payables | (1) | (3) | 26 | 21 | 43 |
| Net cash (used in) provided by operating activities | $ (6,747) | 10,673 | 9,000 | 5,282 | 18,208 |

Supplemental noncash operating/investing activities:
Mortgage loans receivable converted to real estate owned amounted to $1,303 in 2018

See accompanying notes to financial statements.

## (1) Authorizing Legislation and Nature of Funds

### *(a) Authorizing Legislation*

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

Federal grant revenues and expenses related to the Agency's participation in programs under the American Recovery and Reinvestment Act of 2009 (ARRA) and the Federal Housing and Economic Recovery Act of 2008 (HERA) are reported in the Operating 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, the Single Family Housing Bond Resolution adopted in September 1990, and the Mortgage Revenue Bond (Mortgage Backed Securities Program) indenture adopted in December 2009 under the federal New Issue Bond Program (NIBP). Monies from these programs have been used by the Agency to purchase mortgage backed securities or mortgage loans on single family residential housing units for persons and families of low and moderate income in Vermont.

**(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 in 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, the Multi-Family HFA initiative adopted in December 2009 under the federal NIBP, and various individualized taxable and tax exempt bond resolutions adopted between December 1985 and June 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 in 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, 2018 reserve requirements totaled $222,000 for the Operating Fund, $166,000 for the Single Family Mortgage Program Fund, $3,951,000 for the Multiple Purpose Program Fund, and $3,759,000 for the Multi-Family Program Fund. Amounts held in reserve accounts as of June 30, 2018 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 measurement focus. Accordingly, the Agency recognizes revenue in the period earned and expenses in the period incurred.

### *(b) Net Position*

Net Position has been classified for external financial reporting purposes into the following three categories:

- *Invested in Capital Assets* – Capital assets, net of accumulated depreciation, and cost of construction or improvement of those assets.
- *Restricted* – Net Position subject to externally imposed stipulations, including those for excess yield loans.
- *Unrestricted* – Net Position that is not subject to externally imposed stipulations. Unrestricted Net Position 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 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 held in trust by loan servicers in depository accounts or amounts in transit to trustees to be invested in collateralized repurchase agreements.

### *(d) Mortgage Loans Receivable*

Mortgage loans receivables are carried at their uncollected principal balances less allowances for loan losses on mortgages and reserves for federally funded loans that are pass-through in nature.

The allowance for the single family loan portfolio is based on the age of the loans receivable, current economic conditions and prior loss experience. The allowance for the multi-family loan portfolio is based on a review of each loan and considers the operating cash flows of the respective projects and fair values of the properties. At June 30, 2018, the allowances for loan losses totaled $6,610,000, broken out as follows: $2,596,000 for the Operating Fund, $39,000 for the Single Family Fund, $2,115,000 for the Multiple Purpose Fund and $1,860,000 for the Multi-Family Fund.

The reserve for federally funded mortgage loans made under Section 1602 and the Tax Credit Assistance Program (TCAP) held in the Operating Fund is $19,579,000.

### *(e) Mortgage Backed Securities*

Mortgage backed securities consist of Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Government National Mortgage Association (GNMA) certificates. Mortgage backed securities are reported at fair value on the Statement of Net Position, and the net appreciation (depreciation) in the fair value is recognized in the Statement of Revenues, Expenses and Changes in Net Position.

***(f) 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. Investments are reported at fair value in the Statement of Net Position. The net appreciation (depreciation) 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 Position. Fair values of guaranteed investment contracts (GICs) are recorded at contract value. Fair values of all other investments are based upon quoted market prices.

***(g) 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, five to ten years for building improvements, and three to five years for furniture and fixtures and computer equipment, using the straight-line method.

***(h) Real Estate Owned***

Real estate owned (REO) consists of properties acquired through foreclosure or repossession and are carried at the lower of cost or net realizable value (estimated market value less costs to sell).

***(i) Hedging Derivatives – Interest Rate Swaps***

The Agency has entered into interest rate swap agreements with counterparties with the intention to achieve a lower overall cost of funds for certain bond issuances. In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the interest rate swap instruments are reported at fair value on the Statement of Net Position.

All of the Agency's interest rate swaps are deemed to be effective cash flow hedges and therefore the fair value adjustment is reported as a deferred outflow on the Statement of Net Position.

***(j) Amortization***

Bond premiums and discounts are deferred and amortized over the lives of the respective issues using the straight-line method. Scheduled amortization of net bond premiums are $258,000; $255,000; $253,000; $250,000 and $248,000 for the five years ending June 30, 2019 through 2023, respectively.

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.

***(k) Income Tax Status***

The Agency is generally not subject to federal and Vermont income taxes under Section 115 of the Internal Revenue Code (IRC) and applicable state laws. The Agency qualifies as a tax-exempt organization under Section 501(c)(3) of the IRC.

***(l) 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 non-mortgage 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.

***(m) Operating and Nonoperating Revenues and Expenses***

The Agency records all revenues and expenses related to its 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. Gains and losses on bond redemption are recorded in operating results, as they are a part of the normal operations of the Agency's activities.

Net appreciation and depreciation in the fair value of investments and federal grant revenues and expenses are recorded as nonoperating revenues and expenses. Grants received from federal, state and local governments are recognized as nonoperating revenue as the related expenditures are incurred.

***(n) Use of Estimates***

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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 Deposit 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; Guaranteed Investment Contracts 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 or have posted adequate collateral to minimize the Agency's risk. All bonds are issued by U.S. Treasury or U.S. government agencies such as FNMA, FHLMC and FHLB, and had implied credit ratings of AAA at the time of purchase and continued to hold those ratings at June 30, 2018. In August of 2011, Standard & Poors (S&P) downgraded the long-term debt rating of the U.S. Government from AAA to AA+. S&P subsequently lowered its credit rating on both Fannie Mae (FNMA) and Freddie Mac (FHLMC) one level from AAA to AA+, noting that the two companies were directly reliant on the U.S. government and have been under U.S. government conservatorship since 2008. The debt of the U.S. Government, FNMA and FHLMC continue to be rated Aaa by Moody's Investment Services.

***(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. Bank deposits in excess of the insured amounts are uninsured and uncollateralized. Deposits in bank accounts at June 30, 2018 totaled $4,993,000. Of this amount, $3,631,000 was exposed to custodial credit risk as uninsured and uncollateralized.

### (b) *Cash and Investments*

The Agency's cash and investments at June 30, 2018 are presented below (in thousands).

| | | Investment maturities (in years) | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 | 1 – 5 | 6 – 10 | More than 10 |
| Cash | $ 5,001 | 5,001 | — | — | — |
| Money market accounts | 19,837 | 19,837 | — | — | — |
| Certificates of deposit | 3,290 | 1,339 | 1,951 | — | — |
| Guaranteed investment contracts | 47,057 | 46,889 | — | — | 168 |
| U.S. Treasury securities | 17,089 | 15,126 | 1,963 | — | — |
| Government agency securities | 3,158 | 2,354 | — | 2 | 802 |
| Mortgage backed securities | 185,402 | 4,794 | 221 | 96 | 180,291 |
| Total cash and investments | $ 280,834 | 95,340 | 4,135 | 98 | 181,261 |

The following table provides information on the credit ratings associated with the Agency's cash and investments at June 30, 2018 (in thousands):

| | Total | AAA | AA | A | NR |
|---|---|---|---|---|---|
| Cash | $ 5,001 | — | — | — | 5,001 |
| Money market accounts | 19,837 | — | — | — | 19,837 |
| Certificates of deposit | 3,290 | — | — | — | 3,290 |
| Guaranteed investment contracts | 47,057 | — | 11,624 | 35,433 | — |
| U.S. Treasury securities | 17,089 | 17,089 | — | — | — |
| Government agency securities | 3,158 | 3,158 | — | — | — |
| Mortgage backed securities | 185,402 | 185,402 | — | — | — |
| Total cash and investments | $ 280,834 | 205,649 | 11,624 | 35,433 | 28,128 |

### (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. Approximately 17% of the Agency's cash and investments are in guaranteed investment contracts. Sumitomo, Bayerische, PNC, Credit Agricole, and AIG are 64%, 25%, 8%, 2%, and 1%, respectively, of the Agency's total guaranteed investment contracts. The Agency's investment policy does not limit the amount invested in a single issue.

### (d) *Interest Rate Risk – Investments*

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

### *(e) Fair Value of Investments*

VHFA has adopted GASB No. 72, *Fair Value Measurement and Application*. This statement establishes a hierarchy of inputs to valuation techniques used to measure fair value:

- Level 1 – quoted market prices in active markets
- Level 2 – inputs other than quoted market prices that are observable either directly or indirectly
- Level 3 – unobservable inputs

The investments that the Agency measured at fair value are as follows (in thousands):

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Certificates of deposit | $ 3,290 | — | 3,290 | — |
| U.S. Treasury securities | 17,089 | 17,089 | — | — |
| Government agency securities | 3,158 | 3,158 | — | — |
| Mortgage backed securities | 185,402 | — | 185,402 | — |
| Total investments and MBS | $ 208,939 | 20,247 | 188,692 | — |
| Interest rate swaps | $ 873 | | 873 | — |

## (4) Mortgage and Construction Loans Receivable

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

Single Family mortgage loans earn interest at annual rates ranging from 0% to 9.05%. Mortgage payments are received monthly by the Agency from which service fees are generally retained by servicing lenders or sub-servicers.

At June 30, 2018, approximately 23.5% 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 Receivable*

Multi-family mortgage loans receivable earn interest at annual rates ranging from 0% to 8.50%, and are collateralized by first mortgage liens on all real and personal property of the mortgaged premises.

## (5) Capital Assets

Capital Asset activity for the year ended June 30, 2018 is shown in the following table (in thousands):

| | Beginning balance | Additions | Ending balance |
|---|---|---|---|
| Capital assets not being depreciated: | | | |
| Land | $ 50 | — | 50 |
| Capital assets being depreciated: | | | |
| Building | 1,001 | — | 1,001 |
| Building improvements | 860 | 71 | 931 |
| Computer equipment | 1,232 | 6 | 1,238 |
| Furniture and fixtures | 213 | — | 213 |
| Total capital assets being depreciated | 3,306 | 77 | 3,383 |
| Less accumulated depreciation for: | | | |
| Building | (563) | (25) | (588) |
| Building improvements | (734) | (21) | (755) |
| Computer equipment | (1,162) | (29) | (1,191) |
| Furniture and fixtures | (209) | (3) | (212) |
| Total accumulated depreciation | (2,668) | (78) | (2,746) |
| Total capital assets being depreciated, net | 638 | (1) | 637 |
| Capital assets, net | $ 688 | (1) | 687 |

Depreciation expense of $78,000 was charged to the Operating Fund.

## (6) Real Estate Owned

Real estate owned (REO) at June 30, 2018 consists of properties held pending sale as a result of foreclosure or repossession by the Agency. REO is carried at the lower of cost or net realizable value. At June 30, 2018 the net realizable value of REO properties held by the Agency totals $314,000, of which $103,000 is related to the Operating Fund and $211,000 to the Multiple Purpose Fund.

## (7) Funds Held on Behalf of Mortgagors

Funds held on behalf of mortgagors are received primarily from multi-family housing developers at the time the Agency makes permanent mortgage loans. Funds held are governed by agreements, and released upon satisfactory compliance with their terms.

## (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. In most cases, interest is payable semi-annually. All bonds are subject to redemption after various dates at par value.

Outstanding bonds payable at June 30, 2018 are as follows (dollars in thousands):

| | |
|---|---|
| A. Single Family Mortgage Program Fund: | |
| Housing Program: | |
| Series 19, maturing 2018 to 2035, interest at 3.492% to 4.75% | $ 3,285 |
| Total Housing Program | 3,285 |
| Mortgage Revenue Bonds (Mortgage Backed Securities Program): | |
| Series 2009A, Subseries A-1 and Series 2010 A, maturing 2018 to 2041, interest at 2.9% to 4.5% | 11,735 |
| Series 2009A, Subseries A-2 and Series 2011 A, maturing 2018 to 2041, interest at 2.32% to 4.5% | 15,760 |
| Series 2009A, Subseries A-3, maturing 2018 to 2041, interest at 2.49% | 32,950 |
| Total Mortgage Revenue Bond Program | 60,445 |
| Total Single Family Mortgage Program Fund | 63,730 |
| B. Multiple Purpose Bond Program Fund: | |
| Multiple Purpose Bonds: | |
| 2008 Series C, maturing 2018 to 2040, interest at 3.167% to 5.35% | 5,180 |
| 2012 Series A, B and C, maturing 2018 to 2042, interest at 2.9% to 4.125% | 21,350 |
| 2013 Series A, B and C, maturing 2018 to 2043, interest at 2.9% to 4.875% | 14,955 |
| 2014 Series A and B, maturing 2018 to 2044, interest at 1.7% to 4.25% | 30,300 |
| 2015 Series A, B, C, D and E, maturing 2018 to 2045, interest at 1.79% to 4.78% | 26,685 |
| 2015 Series F and G, maturing 2018 to 2045, interest at 1.4% to 4.0% | 18,275 |
| 2016 Series A and B, maturing 2018 to 2046, interest at 1.2% to 4.0% | 22,995 |
| 2016 Series C and D, maturing 2018 to 2046, interest at 0.9% to 4.0% | 25,080 |
| 2017 Series A and B, maturing 2018 to 2047, interest at 1.25% to 4.05% | 26,105 |
| 2017 Series C and D, maturing 2019 to 2048, interest at 1.15% to 4.0% | 31,395 |
| 2018 Series A, maturing 2019 to 2048, interest at 1.875% to 4.0% | 34,950 |
| Total Multiple Purpose Bonds | 257,270 |

| | |
|---|---|
| C. Multi-Family Mortgage Program Fund: | |
| Mortgage Program: | |
| 2003 Series A and B, maturing 2018 to 2043, interest at 5.05% to 5.25% | 1,385 |
| 2012 Series A, B and C, maturing 2018 to 2052, interest at 2.067% to 4.629% | 22,730 |
| 2014 Series A, B and C, maturing 2018 to 2045, interest at 2.3% to 6.0% | 13,595 |
| Total Mortgage Program | 37,710 |
| Direct Placement Program: | |
| Variable Rate Demand Revenue Bonds, Series 1, maturing 2019 to 2038, interest at 4.18% to 5.49% | 3,450 |
| Variable Rate Demand Revenue Bonds, Series 2, maturing 2019 to 2038, interest at 3.756% to 4.61% | 2,115 |
| Total Direct Placement Programs | 5,565 |
| HFA Initiative Multifamily Bonds: | |
| 2009 Series B, maturing 2018 to 2041, interest at 3.61% | 5,870 |
| 2009 Series C and 2011 Series A, maturing 2018 to 2051, interest at 2.15% to 3.2% | 18,165 |
| 2012 Series A, maturing 2018 to 2043, interest at 5.25% | 2,771 |
| Total HFA Initiative Bonds | 26,806 |
| Total Multi-Family Mortgage Program Fund | 70,081 |
| Total bonds payable | 391,081 |
| Plus Unamortized Bond Premium (Discount), net | 5,164 |
| | $ 396,245 |

All calendar year 2018 maturities on bonds payable occur after June 30, 2018.

Future maturities on bonds payable as of June 30, 2018 are as follows (in thousands):

| Year ending | Single Family | | Multiple Purpose | | Multi-Family | | Total | |
|---|---|---|---|---|---|---|---|---|
| June 30: | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2019 | $ 2,095 | 1,762 | 8,345 | 8,797 | 1,952 | 2,607 | 12,392 | 13,166 |
| 2020 | 2,115 | 1,701 | 9,905 | 8,632 | 1,746 | 2,556 | 13,766 | 12,889 |
| 2021 | 2,165 | 1,639 | 10,245 | 8,420 | 1,588 | 2,506 | 13,998 | 12,565 |
| 2022 | 2,185 | 1,573 | 10,150 | 8,180 | 1,737 | 2,456 | 14,072 | 12,209 |
| 2023 | 2,215 | 1,507 | 10,370 | 7,921 | 1,945 | 2,396 | 14,530 | 11,824 |
| 2024-2028 | 11,630 | 6,467 | 55,130 | 34,943 | 11,744 | 10,885 | 78,504 | 52,295 |
| 2029-2033 | 14,830 | 4,600 | 54,770 | 25,471 | 15,097 | 8,302 | 84,697 | 38,373 |
| 2034-2038 | 15,125 | 2,637 | 50,320 | 14,968 | 15,479 | 5,230 | 80,924 | 22,835 |
| 2039-2043 | 11,370 | 661 | 26,845 | 7,386 | 12,763 | 2,403 | 50,978 | 10,450 |
| 2044-2048 | — | — | 20,435 | 2,320 | 4,345 | 528 | 24,780 | 2,848 |
| 2049-2053 | — | — | 755 | 30 | 1,685 | 95 | 2,440 | 125 |
| Total | $ 63,730 | 22,547 | 257,270 | 127,068 | 70,081 | 39,964 | 391,081 | 189,579 |

A summary of bonds payable, discount on bonds, and premium on bonds activity for the year ended June 30, 2018 is as follows (in thousands):

| | Beginning balance | Increases | Decreases | Ending balance | Due within one year | Due thereafter |
|---|---|---|---|---|---|---|
| Bonds payable | $ 374,369 | 66,345 | (49,633) | 391,081 | 12,392 | 378,689 |
| Discount on bonds | (171) | — | 24 | (147) | (11) | (136) |
| Premium on bonds | 4,577 | 1,708 | (974) | 5,311 | 269 | 5,042 |
| Bonds payable, net | $ 378,775 | 68,053 | (50,583) | 396,245 | 12,650 | 383,595 |

The Agency has entered into interest rate swap agreements with counterparties in connection with the Variable Rate Demand Bonds (VRDB). 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, 2018, debt service requirements of the variable rate bonds and net swap payments, assuming current interest rates remain constant, are as follows (in thousands):

| | Variable rate | | Interest rate | |
|---|---|---|---|---|
| Year ending June 30: | Principal | Interest | swaps, net | Total |
| 2019 | $ 920 | 214 | 330 | 1,464 |
| 2020 | 885 | 203 | 305 | 1,393 |
| 2021 | 895 | 190 | 285 | 1,370 |
| 2022 | 3,860 | 150 | 218 | 4,228 |
| 2023 | 2,390 | 97 | 135 | 2,622 |
| 2024-2028 | 2,000 | 303 | 415 | 2,718 |
| 2029-2033 | 1,065 | 194 | 252 | 1,511 |
| 2034-2038 | 1,105 | 137 | 173 | 1,415 |
| 2039-2040 | 1,025 | 17 | 22 | 1,064 |
| Total | $ 14,145 | 1,505 | 2,135 | 17,785 |

A summary of the swap agreement is as follows (in thousands):

| Issue | Counter-Party | Ratings (Moody's/ S&P) | Effective date | Notional amount | Termination date | Fixed swap payment rate | Variable receivable rate | Fair Value at 6/30/2018 |
|---|---|---|---|---|---|---|---|---|
| Series 19 | BNY Mellon | Aa1/AA- | 4/8/2004 | $ 2,600 | 11/1/2027 | 3.49% | 70% 1mo LIBOR | $ (159) |
| MPB 2008C | Wells Fargo | Aa1/AA- | 9/24/2008 | 2,130 | 5/1/2040 | 3.17% | SIFMA + 0.05% | (45) |
| MPB 2013A | BNY Mellon | Aa2/AA- | 11/30/2004 | 3,850 | 5/1/2029 | 3.68% | SIFMA + 0.10% | (260) |
| MF Series 1A | KeyBank NA | Aa3/A- | 1/25/2007 | 550 | 1/1/2022 | 4.24% | SIFMA + 0.15% | (38) |
| MF Series 1B | KeyBank NA | Aa3/A- | 1/25/2007 | 1,475 | 1/1/2022 | 4.18% | SIFMA + 0.10% | (101) |
| MF Series 1C | KeyBank NA | Aa3/A- | 1/25/2007 | 1,425 | 1/1/2022 | 5.49% | 1mo LIBOR + 0.05% | (125) |
| MF Series 2A | KeyBank NA | Aa3/A- | 1/24/2008 | 1,055 | 1/5/2023 | 3.80% | SIFMA + 0.15% | (69) |
| MF Series 2B | KeyBank NA | Aa3/A- | 1/24/2008 | 225 | 1/5/2023 | 3.76% | SIFMA + 0.10% | (15) |
| MF Series 2C | KeyBank NA | Aa3/A- | 1/24/2008 | 835 | 1/5/2023 | 4.61% | 1mo LIBOR + 0.05% | (61) |
| Total | | | | $ 14,145 | | | | $ (873) |

By using derivative financial instruments to hedge exposures to changes in interest rates, the Agency exposes itself to credit, market, and basis 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 ratings are higher than A. 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. Basis risk is the risk that variable rate payments to bondholders will not equal variable rate receipts from the counterparty.

## (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, 2018, the Agency had outstanding borrowings totaling $3,654,000 which are secured by mortgage loans with a carrying value of $2,879,000 and U.S. Securities with a market value of $1,963,000. These borrowings have interest rates of 0% and mature from November 2023 through November 2027.

The Agency has an $850,000 note payable to the Vermont Community Foundation at a rate of 1.5%, maturing in March, 2019. The note is uncollateralized.

The Agency has a $1,500,000 note payable to the MacArthur Foundation at a rate of 1.0%, maturing October 2018 through October 2019. The proceeds of this note are used to provide low cost pre-development, energy, and equity bridge loans to multi-family housing projects.

The Agency has a $2,800,000 note payable to the State of Vermont at a rate of 2.76%, maturing February 2024. The proceeds of this note are to provide financing for energy efficiency projects described in Act No. 97 of the Acts of 2013.

The Agency has $24,577,000 in amortizing notes payable to the Federal Financing Bank. These borrowing have interest rates ranging from 2.24% to 3.34%, and mature from March 2047 to December 2057. The proceeds of these notes were used to finance FHA Risk-Sharing Insured Mortgage Loans.

The Agency is operating under unsecured lines of credit that total $69,000,000 with lending institutions expiring in 2019 and 2020. At June 30, 2018, there were $13,638,000 of borrowings under the lines at interest rates of 1.91% to 2.94%. 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.

Future notes payable maturities as of June 30, 2018 are as follows (in thousands):

| | Operating | | Multi-Family | | Total | |
|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| Year ending June 30: | | | | | | |
| 2019 | $ 3,131 | 704 | 4,794 | 358 | 7,925 | 1,062 |
| 2020 | 1,294 | 677 | 7,894 | 122 | 9,188 | 799 |
| 2021 | 307 | 666 | 540 | 58 | 847 | 724 |
| 2022 | 320 | 657 | 555 | 43 | 875 | 700 |
| 2023 | 334 | 648 | 570 | 29 | 904 | 677 |
| 2023 - 2028 | 5,560 | 3,090 | 585 | 12 | 6,145 | 3,102 |
| 2028 - 2033 | 2,366 | 2,791 | — | — | 2,366 | 2,791 |
| 2033 - 2038 | 2,938 | 2,420 | — | — | 2,938 | 2,420 |
| 2038 - 2043 | 3,650 | 1,958 | — | — | 3,650 | 1,958 |
| 2043 - 2048 | 4,270 | 1,387 | — | — | 4,270 | 1,387 |
| 2048 - 2053 | 4,388 | 802 | — | — | 4,388 | 802 |
| 2053 - 2057 | 3,523 | 179 | — | — | 3,523 | 179 |
| Total | $ 32,081 | 15,979 | 14,938 | 622 | 47,019 | 16,601 |

A summary of notes payable activity for the year ended June 30, 2018 is as follows (in thousands):

| | Beginning balance | Increases | Decreases | Ending balance | Current | Non-current |
|---|---|---|---|---|---|---|
| Line of credit borrowings | $ 12,016 | 20,063 | (18,441) | 13,638 | 6,039 | 7,599 |
| Notes payable | 29,670 | 4,904 | (1,193) | 33,381 | 1,886 | 31,495 |
| Total | $ 41,686 | 24,967 | (19,634) | 47,019 | 7,925 | 39,094 |

## (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.

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.

Net Position derived from purpose restricted resources provided under contractual agreements with federal agencies are restricted to the underlying purpose.

## (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 defined contribution retirement plan. The Agency's contribution to the Plan is 10% of the covered payroll. Employees are 30% vested in benefits under the plan upon participation, and vest in the remaining 70% on a pro-rata basis over five years of service. Forfeitures on non-vested benefits by terminated employees reduce the Agency's contribution. The cost of the plan was $256,000 for the year ended June 30, 2018, and is included in salaries and benefits expense.

## (12) Gain on Bond Redemptions

During the year ended June 30, 2018, the Agency redeemed $6,345,000 of its Single Family Bonds, $23,000,000 of its Multiple Purpose Bonds, and $2,020,000 of its Multi-Family Bonds prior to scheduled maturity dates. Net gain on bond redemptions was $706,000 and represents the net unamortized bond premium and discount balances at the time the bonds were retired.

## (13) Federal Programs

In fiscal year 2018, the Agency participated in the following federal funding programs:

- On July 1, 2009, VHFA entered into an agreement with the United States Department of Housing and Urban Development (HUD) to administer $5,417,000 of funding available to eligible Vermont housing development under Federal Tax Credit Assistance Program (TCAP). The TCAP program, authorized by the American Recovery and Reinvestment Act pays for capital items in developments that receive Internal Revenue Code Section 42 Housing Credits. As of June 30, 2018, the Agency had distributed the full $5,417,000 from this program.

- On August 26, 2009, VHFA made its first distribution under Section 1602 of the American Recovery and Reinvestment 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 administered the distribution of the cash to eligible housing developments to pay for capital items. As of June 30, 2018, VHFA had exchanged approximately $1,700,000 of credits for $14,162,000 in awarded funds, the full amount of which has been disbursed.

- On June 15, 2009, VHFA signed a memorandum of agreement with the State of Vermont to administer $7,017,000 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 were used to purchase Single Family homes that have been foreclosed upon, rehabilitate each home with a focus on energy efficiency, and resell the homes to income eligible homebuyers. In addition to the initial $7,017,000, sales proceeds have been and will continue to be recycled until all program funding and income from sales has been invested in homes, including provisions for homebuyer subsidies. As of June 30, 2018, VHFA had incurred program expenses of $15,344,000, funded by the $7,017,000 NSP award and $8,485,000 from the sale of rehabilitated houses.

- On May 11, 2011, VHFA signed a memorandum of agreement with the State of Vermont to administer $2,900,000 of Neighborhood Stabilization Program (NSP-3) funds allocated to the State under the Federal Housing and Economic Recovery Act of 2008. NSP-HARP III, is administered as a separate and distinct pool of funds, but serves as an extension of the activities in the NSP-HARP Program noted above. As in NSP-HARP, sales proceeds are recycled to leverage the original $2,900,000 until all funding and program income have been invested. As of June 30, 2018, VHFA had incurred program expenses of $6,181,000, funded by the $2,900,000 NSP-3 award and $3,372,000 from the sale of rehabilitated houses.

- During fiscal year 2018, the Agency administered the "Section 8 Housing Assistance Payment Program" (HAP) under Annual Contribution Contracts (ACC) with the Department of Housing and Urban Development (HUD) for 13 housing developments (318 units). Under the ACC, VHFA receives funds from HUD with which to make housing assistance payments to an owner of assisted housing pursuant to Housing Assistance Payment Contracts entered into by HUD with the owners. Under the Section 8 program, the owner must determine the portion of the gross rent to be paid by tenants in accordance with HUD schedules and criteria, typically 30% of the tenant's adjusted income (as defined by HUD). The balance of the monthly contract rent is paid by VHFA in the form of monthly housing assistance payments. The Agency distributed $2,688,000 in HAP payments under this program during the year ended June 30, 2018.

### (14) Commitments and Contingencies

At June 30, 2018, the Agency had outstanding commitments in the amount of $21,082,000 to purchase mortgage loans or mortgage backed securities pursuant to its normal funding from bond proceeds. The Agency also had $7,677,000 of outstanding commitments to purchase securities under the TBA model. In addition, there were commitments of $44,250,000 for general loans.

Under the Single Family Mortgage Programs, the Agency has obtained surety bonds in the amount of $1,310,000 expiring between 2034 and 2035, which satisfy the requirements of certain bond resolutions.

## (15) 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.

## (16) Conduit Debt Obligation

On July 29, 2004, the Agency issued tax-exempt bonds and taxable bonds on a conduit basis. The proceeds of the bonds were used for the purpose of providing funds to finance the construction, furnishing and equipping of a student housing facility. As of June 30, 2018, $21,070,000 of the bonds were outstanding.

On October 29, 2010, the Agency issued tax-exempt bonds on a conduit basis. The proceeds of the bonds were used for the purpose of financing the new construction of a planned multi-level retirement community. The bonds were sold on a private placement basis. As of June 30, 2018, $10,025,000 of the bonds were outstanding.

On January 25, 2018, the Agency issued taxable and sustainability bonds on a conduit basis. The proceeds of the bonds were used for the dual purposes of creating affordable housing and conserving and protecting important Vermont lands. As of June 30, 2018, $35,660,000 of the bonds were outstanding.

The Agency is not obligated in any manner for repayment of these conduit bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

## (17) Subsequent Events

The events that occur after the date of the Statement of Net Position but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the Statement of Net Position are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the Statement of Net Position require disclosure in the accompanying notes. Management evaluated the activity of VHFA through September 26, 2018 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.