KPMG

VERMONT HOUSING FINANCE AGENCY

(A Component Unit of the State of Vermont)

Financial Statements and
Required Supplementary Information

June 30, 2010

(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities and each major fund of the Vermont Housing Finance Agency (the Agency), a component unit of the State of Vermont, as of and for the year ended June 30, 2010, 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, 2010, 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 7 is not a required part of the basic 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 1, 2010

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, 2010. 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 $2.96 billion aggregate principal amount of bonds, notes and line of credit borrowings, of which $783.9 million was outstanding as of June 30, 2010, 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 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, mortgage backed securities, cash and investments, and related bonds and notes payable. It also includes a portfolio of mortgage and construction loans financed through its Operating Fund, as well as a variety of other assets such as property and equipment, other receivables, and deferred charges.

Cash and investments are used to fund loan 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.

The following table summarizes the net assets of the Agency as of June 30, 2010 with comparative data from the prior fiscal year.

		2010	2009	Percentage change 2010 – 2009
Assets:				
Cash and investments	$	230,493,037	131,828,112	74.8%
Loans receivable, net		579,130,499	681,004,431	(15.0)
Mortgage backed securities		49,560,221	—	N/A
Other assets		33,614,412	18,873,402	78.1
Total assets		892,798,169	831,705,945	7.3
Liabilities:				
Bonds and notes payable		783,853,074	739,087,628	6.1
Other liabilities		24,006,756	11,797,806	103.5
Total liabilities		807,859,830	750,885,434	7.6
Net assets:				
Invested in capital assets		1,614,858	1,628,361	(0.8)
Restricted:				
Bond and other requirements		67,976,013	62,417,750	8.9
Excess yield loans		8,102,137	8,455,328	(4.2)
Unrestricted		7,245,331	8,319,072	(12.9)
Total net assets	$	84,938,339	80,820,511	5.1%

Total assets increased by $61.1 million or 7.3% for fiscal year ended June 30, 2010 when compared to the year ended June 30, 2009. The change in assets is primarily the result of:

- Overall cash and investments increased by $98.7 million, or 74.8%, from June 30, 2009 primarily due to proceeds from the issuance of $125 million of escrow bonds under the US Treasury's New Issue Bond Program.
- A net decrease in loans receivable and mortgage backed securities of $52.3 million.
- Mortgage loans receivable decreased a net of $101.9 million or 15.0%. Of this decrease $41.2 million is due to the conversion of whole loans to mortgage-backed securities (a shift between two asset categories). Excluding loans converted to MBS the net decrease in whole loans was $60.7 million or 8.9%. Total loan originations in the twelve months were $44.0 million including $13.0 million of loans originated using MBS or the Fannie Mae cash window. Loans totaling $10.2 million were originated under the IRS Section 1602 Tax Credit Exchange and the HUD Tax Credit Assistance programs.

(Continued)

- Loans originated using federal funds (Section 1602 and TCAP) are pass-through in nature and will not be realized by the Agency and, as such, are fully reserved at year-end. The addition of these reserves accounts for the net increase in the loan loss provision for the year.
- In fiscal year 2010 the Agency implemented an MBS (mortgage backed security) strategy using a two-pronged approach: first converting $41.2 million of existing whole loans to mortgage backed securities with Freddie Mac, and secondly purchasing mortgage backed securities for essentially all new single-family mortgage loan originations.

The following table summarizes the change in mortgage loans receivable for the year ended June 30, 2010, with comparative data from the prior fiscal year:

	Fiscal year ended June 2010	Fiscal year ended June 2009	Percentage change year to year June 2010 vs. June 2009
Mortgage loans receivable:			
Beginning balance	$ 681,004,431	705,340,994	(3.5)%
Whole loan originations	20,846,947	55,931,834	(62.7)
IRS Section 1602 program originations	9,306,000	—	N/A
HUD TCAP program originations	846,236	—	N/A
Cash window loan sales	1,491,358	—	N/A
Principal collections	(77,454,369)	(77,372,687)	0.1
Loans converted to MBS	(41,225,500)	—	N/A
Loans transferred to REO status	(3,679,957)	(2,162,982)	70.1
Loan loss provision	(361,053)	(732,728)	(50.7)
Loan loss provision – 1602/TCAP	(10,152,236)	—	N/A
Less cash window sales	(1,491,358)	—	N/A
Ending mortgage loans receivable balance	$ 579,130,499	681,004,431	(15.0)%

The following table summarizes the change in mortgage backed securities for the fiscal year ended June 30, 2010:

		Fiscal year ended June 2010
Mortgage backed securities (MBS):		
Beginning balance	$	—
Loans converted to MBS		41,225,500
MBS purchased		11,532,857
Principal paydowns		(6,184,256)
Unamortized discount points		(37,701)
Appreciation in fair value		3,023,821
Ending MBS balance	$	49,560,221

Total liabilities of the Agency increased by $57 million, or 7.6% for the fiscal year ended June 30, 2010 when compared to the year ended June 30, 2009, primarily as a net result of:

- The net change in bonds payable was $39.3 million, which is primarily comprised of the $125 million of escrow bonds issued under the Treasury program, net of $85.7 million from scheduled debt service and bond calls.
- For fiscal year 2010 the Agency was required to implement GASB 53, Accounting and Financial Reporting for Derivative Instruments. In accordance with the provisions of GASB 53 the Agency has recorded $15.0 million in offsetting assets and liabilities; noncurrent deferred inflow of resources, and noncurrent change in fair value of derivative instrument interest rate swaps, respectively. These balances are reported under other assets, and other liabilities, and account for the increases in both of these balance sheet categories in fiscal year 2010.

Discussion of changes in Statement of Revenues, Expenses and Changes in Net Assets

The Agency's operating revenues consist primarily of interest income on mortgage and construction loans, investment income, and miscellaneous fee income. Operating expenses consist of bond interest expense and other debt financing costs, operational expenses, and mortgage servicing fees.

The following summarizes the changes for the fiscal year ended June 30, 2010 with comparative data from the prior fiscal year:

	Fiscal year ended June 30, 2010	Fiscal year ended June 30, 2009	Percentage change 2010 – 2009
Operating revenues:			
Interest on loans	$ 36,178,804	42,364,370	(14.6)%
Interest on mortgage backed securities	2,289,389	—	N/A
Interest on investments	4,288,008	5,180,906	(17.2)
Fee income	1,121,336	727,525	54.1
Gain on bond redemptions	130,944	154,640	(15.3)
Other revenue	77,594	141,772	(45.3)
Total operating revenues	44,086,075	48,569,213	(9.2)
Operating expenses:			
Financing costs	37,635,656	45,194,711	(16.7)
Operational expenses	4,155,311	4,777,266	(13.0)
Mortgage servicing	928,043	1,101,184	(15.7)
Loan loss provision	767,865	803,405	(4.4)
Total operating expenses	43,486,875	51,876,566	(16.2)
Operating income (loss)	599,200	(3,307,353)	N/A
Nonoperating revenues:			
Net appreciation (depreciation) in fair value of investments	3,518,628	(129,678)	N/A
Federal programs:			
Federal grant revenue	15,305,110	—	N/A
Federal grant expense	(15,025,510)	—	N/A
Administration and period costs	(279,600)	—	N/A
Excess (deficiency) of revenues over expenses	4,117,828	(3,437,031)	N/A
Net assets – beginning of year	80,820,511	84,257,542	(4.1)
Net assets – end of year	$ 84,938,339	80,820,511	5.1

(Continued)

The Agency's net operating income was $599,200 for the fiscal year ended June 30, 2010, compared to a net operating loss of $3.3 million for the fiscal year ended June 30, 2009. When net nonoperating revenues are included the overall excess of revenues over expenses for the fiscal year ended June 30, 2010 was $4.1 million compared with a net deficiency of revenues over expenses in the previous fiscal year of $3.4 million.

Income and expense highlights include:

- Interest income on loans and mortgage backed securities decreased by $3.9 million (9.2%) reflecting the effect of net portfolio runoff and the reduced spread on the whole loans converted to MBS.
- Interest income on investments decreased by $893 thousand (17.2%) due to a reduction in the investment portfolio balance and lower reinvestment rates.
- Financing costs decreased $7.6 million relative to the same period prior year due to the net reduction in outstanding bonds and notes payable of $80.2 million (exclusive of escrow bonds issued on December 23, 2009), and the reduction of rates paid on variable rate debt.
- Operational expenses decreased by $622 thousand compared with the prior year. The overall decrease is primarily the result of reductions in salary and benefits costs of $350 thousand, and reduction in subsidy expenses of $240 thousand. These savings represent the full year effect of budget adjustments implemented during fiscal year 2009.

Budgetary Information

The Agency prepares an annual budget of income, expenses, and fund transfers for its Operating Fund. The operating 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 Operating Fund cash-on-hand to bridge the gap between annual operating expenses and operating income.

For fiscal year 2010, the Agency budgeted $1.5 million in operating revenues and $4.9 million in operating expenses. Actual operating revenues of $1.8 million and expenses of $4.5 million resulted in positive budget variances of $300 thousand and $400 thousand respectively. Net fund transfers for the period were $1.7 million.

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, but are not part the Agency's operating 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 Vermont Housing Finance Agency, 164 St. Paul Street, 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 Assets

June 30, 2010

Assets		**Operating Fund**	**Single Family Mortgage Program Fund**	**Multiple Purpose Bond Fund**	**Multi-Family Mortgage Program Fund**	**Total**
Cash and cash equivalents	$	4,165,548	—	—	—	4,165,548
Investments		100,000	—	—	—	100,000
Accrued interest receivable:						
Mortgage and notes		1,165,261	1,686,709	535,294	307,503	3,694,767
Investments		1,756	434,564	8,475	284,186	728,981
Mortgage backed securities		—	75,138	32,781	—	107,919
Current portion of mortgage loans receivable		2,104,514	7,516,575	3,501,946	2,209,427	15,332,462
Current portion of mortgage backed securities		—	770,367	257,602	—	1,027,969
Current costs of bond issuance expense		—	84,929	40,122	43,822	168,873
Current portion of deferred mortgage originating fees, net		—	341,343	37,591	—	378,934
Current receivables and prepaid expenses		272,874	1,313,545	300,367	160,862	2,047,648
Interfund receivables (payables)		1,159,158	436,596	(82,621)	(1,513,133)	—
Total current assets		8,969,111	12,659,766	4,631,557	1,492,667	27,753,101
Noncurrent assets:						
Restricted cash and cash equivalents		417,871	139,685,718	10,918,902	48,062,243	199,084,734
Restricted investments		—	22,069,282	—	5,073,473	27,142,755
Noncurrent portion of mortgage loans receivable, net		10,170,565	320,736,989	131,090,610	101,799,873	563,798,037
Noncurrent portion of mortgage backed securities		—	31,633,859	16,898,393	—	48,532,252
Deferred costs of bond issuance, net		—	2,350,623	601,164	899,929	3,851,716
Deferred mortgage origination fees, net		—	415,030	158,049	—	573,079
Noncurrent receivables and prepaid expenses		—	1,544,709	1,087,801	—	2,632,510
Land		775,000	—	—	—	775,000
Building (less accumulated depreciation of $387,823)		613,011	—	—	—	613,011
Office furniture and fixtures (less accumulated depreciation of $1,599,639)		226,847	—	—	—	226,847
Noncurrent deferred inflow of resources related to interest rate swaps		—	9,405,002	4,510,770	1,080,209	14,995,981
Other assets and real estate owned		—	2,553,830	265,316	—	2,819,146
Total noncurrent assets		12,203,294	530,395,042	165,531,005	156,915,727	865,045,068
Total assets	$	21,172,405	543,054,808	170,162,562	158,408,394	892,798,169
Liabilities and Net Assets						
Liabilities:						
Current liabilities:						
Current notes payable and lines of credit	$	699,235	—	—	6,141,287	6,840,522
Current bonds payable		10,906	111,185,000	3,170,000	26,451,887	140,817,793
Accrued interest payable		60,668	3,146,564	1,142,977	1,697,708	6,047,917
Current unamortized bond and note premium (discount), net		—	(44,009)	(54,247)	(58,778)	(157,034)
Current deferred loan origination fees		9,398	—	—	—	9,398
Current deferred income		4,952	—	—	—	4,952
Accounts payable		521,014	898,928	128,314	25,790	1,574,046
Escrowed cash deposits		1,354,829	19,223	—	—	1,374,052
Arbitrage rebate payable		—	1,154,002	—	—	1,154,002
Total current liabilities		2,661,002	116,359,708	4,387,044	34,257,894	157,665,648
Noncurrent liabilities:						
Noncurrent notes payable and lines of credit		8,356,714	—	—	17,454,586	25,811,300
Noncurrent bonds payable		523,555	377,580,000	140,565,000	91,714,904	610,383,459
Fair value of derivative instrument – interest rate swaps		—	9,405,002	4,510,770	1,080,209	14,995,981
Unamortized bond and note premium (discount), net		—	(1,070,391)	(52,022)	(708,568)	(1,830,981)
Arbitrage rebate payable		—	63,478	—	—	63,478
Deferred program income		408,500	—	—	—	408,500
Noncurrent deferred mortgage loan origination fees		260,913	—	—	—	260,913
Noncurrent deferred income		101,532	—	—	—	101,532
Total noncurrent liabilities		9,651,214	385,978,089	145,023,748	109,541,131	650,194,182
Total liabilities		12,312,216	502,337,797	149,410,792	143,799,025	807,859,830
Net assets:						
Invested in capital assets		1,614,858	—	—	—	1,614,858
Restricted for:						
Bond resolutions		—	40,717,011	20,751,770	14,609,369	76,078,150
Unrestricted		7,245,331	—	—	—	7,245,331
Total net assets		8,860,189	40,717,011	20,751,770	14,609,369	84,938,339
Total liabilities and net assets	$	21,172,405	543,054,808	170,162,562	158,408,394	892,798,169

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 Assets

Year ended June 30, 2010

		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	$	805,538	20,587,377	8,295,873	6,490,016	36,178,804
Investments		5,132	3,283,171	244,173	755,532	4,288,008
Mortgage backed securities		—	1,777,269	512,120	—	2,289,389
Fee income:						
Multi-Family Mortgage Programs		900,927	—	131,434	—	1,032,361
Single Family Mortgage Programs		88,865	20	90	—	88,975
Gain (loss) on bond redemptions		—	153,356	73,642	(96,054)	130,944
Other revenue		77,594	—	—	—	77,594
Total operating revenues		1,878,056	25,801,193	9,257,332	7,149,494	44,086,075
Operating expenses:						
Financing costs, including interest and amortization of premium, discount and costs of issuance, net		572,593	22,835,161	7,978,263	6,249,639	37,635,656
Mortgage service and contract administration fees		—	682,797	209,399	35,847	928,043
Salaries and benefits		3,011,098	—	—	—	3,011,098
Operating expenses		598,960	—	—	—	598,960
Professional fees		170,058	141,122	17,500	12,500	341,180
Trustee and assignee fees		204,073	—	—	—	204,073
Property disposition and loan loss reserves (recoveries)		52,364	484,877	292,624	(62,000)	767,865
Total operating expenses		4,609,146	24,143,957	8,497,786	6,235,986	43,486,875
Operating income (loss)		(2,731,090)	1,657,236	759,546	913,508	599,200
Nonoperating revenues (expenses):						
Net appreciation in fair value of investments		—	2,589,558	916,601	12,469	3,518,628
Federal programs:						
Federal grant revenue		15,305,110	—	—	—	15,305,110
Federal grant expenses		(15,025,510)	—	—	—	(15,025,510)
Administration and period costs		(279,600)	—	—	—	(279,600)
Income (loss) before transfers		(2,731,090)	4,246,794	1,676,147	925,977	4,117,828
Net transfers to (from) operating fund		1,643,846	(1,144,150)	29,588	(529,284)	—
Increase (decrease) in net assets		(1,087,244)	3,102,644	1,705,735	396,693	4,117,828
Net assets at beginning of year		9,947,433	37,614,367	19,046,035	14,212,676	80,820,511
Net assets at end of year	$	8,860,189	40,717,011	20,751,770	14,609,369	84,938,339

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, 2010

	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	$ 817,173	21,206,773	8,314,906	6,429,357	36,768,209
Interest collections on mortgage backed securities	—	1,702,131	479,339	—	2,181,470
Principal collections on mortgages	946,591	41,204,650	13,291,560	22,011,568	77,454,369
Principal collections on mortgage backed securities	—	5,187,554	996,702	—	6,184,256
Federal grant revenues	10,152,246	—	—	—	10,152,246
Purchases of mortgages	(10,714,353)	(477,226)	(1,635,470)	(18,172,134)	(30,999,183)
Purchases of mortgage backed securities	—	—	(11,532,857)	—	(11,532,857)
Discount on purchases of mortgage backed securities	—	—	37,701	—	37,701
Fee income and other receipts	858,596	20	131,524	—	990,140
Salaries and benefits payments	(2,824,988)	—	—	—	(2,824,988)
Operating expense payments	(817,585)	(865,138)	(95,338)	(48,347)	(1,826,408)
Admin and period cost payments federal programs	(279,600)	—	—	—	(279,600)
Foreclosed property (gain) loss	13,060	(587)	(8,327)	—	4,146
Payment on prepaid origination fees	—	(1,806)	(8,139)	—	(9,945)
Service fee and other payments	—	(688,741)	(209,381)	—	(898,122)
Net cash provided by (used for) operating activities	(1,848,860)	67,267,630	9,762,220	10,220,444	85,401,434
Cash flows from investing activities:					
Proceeds from sales and maturities investments	—	4,349,223	—	—	4,349,223
Interest received on investments	3,837	2,865,424	319,379	732,883	3,921,523
Decrease in escrowed cash deposits	(1,013,502)	75	—	—	(1,013,427)
Cost of real estate owned	—	(565,992)	—	—	(565,992)
Proceeds from sales of real estate owned	—	2,165,298	268,920	—	2,434,218
Payment to IRS to rebate excess earnings	—	(19,352)	—	—	(19,352)
Net cash provided by (used for) investing activities	(1,009,665)	8,794,676	588,299	732,883	9,106,193
Cash flows from noncapital financing activities:					
Net proceeds from issuance of bonds payable	—	102,000,000	—	23,000,000	125,000,000
Principal payments on bonds	(10,192)	(60,255,000)	(16,605,000)	(8,842,362)	(85,712,554)
Interest payments on bonds and notes payable	(569,075)	(21,728,483)	(7,747,650)	(6,280,483)	(36,325,691)
Proceeds from issuance of notes payable	3,048,053	—	—	19,944,921	22,992,974
Repayment of notes payable	(1,931,447)	—	—	(15,583,528)	(17,514,975)
Payments to bond insurers		(333,021)	(77,530)	(15,420)	(425,971)
Cost of issuance reimbursements	17,324	—	—	—	17,324
Payments for cost of issuance	(15,864)	(286,269)	(12,638)	(105,216)	(419,987)
Transfers from (to) other funds	1,274,404	(1,417,157)	(208,936)	351,689	—
Net cash provided by (used for) noncapital financing activities	1,813,203	17,980,070	(24,651,754)	12,469,601	7,611,120
Cash flows from capital related financing activities:					
Federal grant receipts for NSP properties	4,969,191	—	—	—	4,969,191
Purchase of NSP properties held for sale	(4,873,274)	—	—	—	(4,873,274)
Proceeds from sales of NSP Properties	408,500	—	—	—	408,500
Purchase of office furniture and fixtures	(103,823)	—	—	—	(103,823)
Net cash used for capital related financing activities	400,594	—	—	—	400,594
Net increase (decrease) in cash and cash equivalents	(644,728)	94,042,376	(14,301,235)	23,422,928	102,519,341
Cash and cash equivalents at beginning of year	5,228,147	45,643,342	25,220,137	24,639,315	100,730,941
Cash and cash equivalents at end of year	$ 4,583,419	139,685,718	10,918,902	48,062,243	203,250,282

(Continued)

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

Statement of Cash Flows

Year ended June 30, 2010

	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)	$ (2,731,090)	1,657,236	759,546	913,508	599,200
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	117,326	—	—	—	117,326
Amortization of (discounts) premiums on bonds and notes payable, net	—	38,902	49,790	60,650	149,342
Amortization of costs of bond issuance and other fees	—	92,966	41,139	45,498	179,603
Amortization of deferred income/fees	—	894,151	258,413	—	1,152,564
Advances for cost of issuance	15,864	—	—	(15,500)	364
Reimbursement for cost of issue advances	(17,324)	—	—	—	(17,324)
Loss (gain) on bond redemptions	—	(153,356)	(73,642)	96,054	(130,944)
Investment interest income	(5,132)	(3,283,171)	(244,173)	(755,532)	(4,288,008)
Bond and note interest expense	572,593	20,742,062	7,470,749	6,127,649	34,913,053
Bond insurance expense	—	343,064	80,334	15,842	439,240
Federal grants revenues	10,152,246	—	—	—	10,152,246
Federal grants admin & period costs	(279,600)	—	—	—	(279,600)
Changes in assets and liabilities:					
Decrease (increase) in mortgage loans receivable	(9,702,338)	76,249,798	17,395,851	3,777,434	87,720,745
Decrease (increase) in mortgage backed securities	—	(30,297,006)	(16,239,394)	—	(46,536,400)
Increase in other assets	—	—	27,478	—	27,478
Decrease (increase) in accrued interest receivable	11,635	139,041	(13,748)	31,973	168,901
Decrease (increase) in other receivables and prepaid expenses	92,854	444,670	(12,012)	(92,632)	432,880
Increase (decrease) in deferred mortgage origination fees, net	(22,680)	405,217	261,871	—	644,408
Increase (decrease) in accounts payable	(53,214)	(5,944)	18	15,500	(43,640)
Net cash provided by (used for) operating activities	$ (1,848,860)	67,267,630	9,762,220	10,220,444	85,401,434

Supplemental noncash operating/investing activities:
Mortgage loans receivable converted to real estate owned amounted to $3,679,957 in fiscal year 2010.

Supplemental noncash financing activities:
The fair value of investments increased $2,767,124 in fiscal year 2010.

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 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.

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 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, 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 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 trusted accounts. As of June 30, 2010, reserve requirements totaled $14,756,038 for the Single Family Mortgage Programs, $6,450,541 for the Multi-Family Mortgage Programs and $4,936,874 for the Multiple Purpose Programs. Amounts held in reserve accounts as of June 30, 2010 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 and purposes restricted resources derived from federal programs.
- *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, 2010, the allowance for loan losses totaled $347,589 relating to Single Family mortgage loans, $1,800,075 for Multiple Purpose mortgage loans, $800,000 for Multi-Family mortgage loans and $12,270,016 for operating fund mortgage loans including $10,152,236 for federal funds (Section 1602 and TCAP) mortgage loans.

Included in Multi-Family mortgage loans receivable is approximately $9.9 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 maturities of the related 1999 and 2007 bond issues, in order to be in compliance with federal tax laws.

(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 assets, and the net increase (decrease) in the fair value is recognized in the statement of revenues, expenses, and changes in net assets.

(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 assets. The net increase (decrease) in the fair value of investments, including both realized and unrealized gains and losses, is recognized in the statement of revenues, expenses, and changes in net assets. Fair values of 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 and three to five years for furniture and fixtures, using the straight-line method.

(h) Derivative Instruments – Interest Rate Swaps

The Agency has entered into interest rate swap agreements with counterparties in order 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 assets.

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 inflow on the statement of net assets.

(i) Amortization

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

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

(j) 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.

(k) Deferred Loan Origination Fees and Costs

Loan origination fees and certain related costs are deferred and amortized over the estimated lives of the respective loans.

(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 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 2010 $19,352 was rebated to the IRS.

(m) 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 and federal grant revenues and expenses are 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.

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 requires estimates and assumptions that affect the reported amount of the assets and liabilities and contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to estimates and assumptions include the provision for loan losses and the valuation of investments.

(3) Cash, Cash Equivalents and Investments

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

The Agency has an investment policy with an overriding goal of providing optimum coverage of risk exposure and maintaining liquidity necessary for future cash needs while maximizing the return on investments. All investment agreements with banks or bank holding companies, insurance companies or other financial institutions must be rated at least "A" by nationally recognized credit rating agencies. All bonds are issued by U.S. Treasury or U.S. government agencies such as FNMA, FHLMC and FHLB, and have implied credit ratings of AAA.

(a) Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Agency's deposits may not be recovered. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. The deposits (including certificates of deposit) at June 30, 2010, were $6.8 million. Of these, $2.5 million were exposed to custodial credit risk as uninsured and uncollateralized.

(b) Cash and Investments

The Agency's cash and investments at June 30, 2010 are presented below.

Investments by Type

June 30, 2010

(Expressed in thousands)

		Investment maturities (in years)			
Investment type	**Fair value**	**Less than 1**	**1 – 5**	**6 – 10**	**More than 10**
Cash	$ 6,683	6,683	—	—	—
Money market	39,303	39,303	—	—	—
Certificate of deposit	100	100	—	—	—
Guaranteed investment contracts	50,436	32,254	—	—	18,182
U.S. Treasury securities	132,542	125,010	—	7,532	—
Government agency securities	1,429	—	615	—	814
Mortgage backed securities	49,560	—	—	512	49,048
	$ 280,053	203,350	615	8,044	68,044

The following table provides information on the credit ratings associated with the Agency's cash and investments at June 30, 2010 (in thousands):

Investment type	**Fair value**	**Aaa**	**Aa**	**A**	**NR**
Cash	$ 6,683	—	—	—	6,683
Money market	39,303	—	—	—	39,303
Certificate of deposit	100	—	—	—	100
Guaranteed investment contracts	50,436	15,234	15,762	19,440	—
U.S. Treasury securities	132,542	132,542	—	—	—
Government agency securities	1,429	1,429	—	—	—
Mortgage backed securities	49,560	49,560	—	—	—
	$ 280,053	198,765	15,762	19,440	46,086

(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 18% of the Agency's cash and investments are invested in guaranteed investment contracts. U.S. Treasury, AIG, Transamerica, Ixis, Bayern LB are 28%, 26%, 16%, 9%, and 7%, respectively, of the Agency's total investments.. 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.

(4) Mortgage and Construction Loans Receivable

(a) Single Family Mortgage Loans Receivable

Single Family mortgage loans earn interest at annual rates ranging from 4.75% to 10.60%. 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, 2010, approximately 59% 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 3% to 14%, 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, 2010 is as follows:

	Beginning balance	Additions	Deletions	Ending balance
Capital assets not being depreciated:				
Land	$ 775,000	—	—	775,000
Total capital assets not being depreciated	775,000	—	—	775,000
Capital assets being depreciated:				
Building	1,000,834	—	—	1,000,834
Building improvements	654,328	9,562	—	663,890
Computer equipment	868,327	94,261	—	962,588
Furniture and fixtures	200,008	—	—	200,008
Total capital assets being depreciated	2,723,497	103,823	—	2,827,320
Less accumulated depreciation for:				
Building	(362,802)	(25,021)	—	(387,823)
Building improvements	(641,477)	(6,719)	—	(648,196)
Computer equipment	(680,799)	(80,316)	—	(761,115)
Furniture and fixtures	(185,058)	(5,270)	—	(190,328)
Total accumulated depreciation	(1,870,136)	(117,326)	—	(1,987,462)
Total capital assets being depreciated, net	853,361	(13,503)	—	839,858
Capital assets, net	$ 1,628,361	(13,503)	—	1,614,858

Current period depreciation expense of $117,326 was charged to the operating fund.

(6) Real Estate Owned

Real estate owned at June 30, 2010 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, 2010, the valuation allowance totaled $212,877.

(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.

(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, 2010 are as follows:

A. Single Family Mortgage Program Fund:		
Housing Program:		
Series 9, maturing 2010 to 2037, interest at 4.750% to 5.400%	$	10,020,000
Series 10, maturing 2010 to 2030, interest at 4.600% to 5.250%		5,800,000
Series 11, maturing 2010 to 2030, interest at 5.300% to 5.950%		2,030,000
Series 12, maturing 2010 to 2031, interest at 5.700% to 6.400%		2,165,000
Series 13, maturing 2010 to 2031, interest at 5.125% to 5.970%		5,250,000
Series 14, maturing 2011 to 2032, interest at 4.700% to 5.675%		7,195,000
Series 15, maturing 2010 to 2032, interest at 4.400% to 5.375%		10,620,000
Series 16, maturing 2011 to 2033, interest at 4.850% to 5.600%		19,635,000
Series 17, maturing 2010 to 2034, interest at 3.182% to 5.100%		15,485,000
Series 18, maturing 2011 to 2034, interest at 3.800% to 4.950%		15,330,000
Series 19, maturing 2010 to 2035, interest at 3.000% to 5.000%		19,450,000
Series 20, maturing 2010 to 2035, interest at 4.050% to 5.500%		18,660,000
Series 21, maturing 2010 to 2035, interest at 2.850% to 5.000%		29,185,000
Series 22, maturing 2010 to 2035, interest at 3.700% to 5.000%		30,435,000
Series 23, maturing 2010 to 2035, interest at 3.650% to 5.000%		43,415,000
Series 24, maturing 2010 to 2036, interest at 3.850% to 5.000%		30,850,000
Series 25, maturing 2010 to 2037, interest at 4.050% to 6.000%		39,255,000
Series 26, maturing 2010 to 2038, interest at 3.750% to 5.750%		44,550,000
Series 27, maturing 2010 to 2038, interest at 3.950% to 5.500%		37,435,000
Total Housing Program		386,765,000
Mortgage Revenue Bonds:		
Mortgage Backed Securities Program, Series 2009A (NIBP Escrow Bonds), maturing 2041, interest at floating rate		102,000,000
Total Mortgage Revenue Bond Program		102,000,000
Total Single Family Mortgage Program Fund	$	488,765,000

B. Multiple Purpose Bond Program Fund:		
Multiple Purpose Bonds:		
2007 Series A and B, maturing 2010 to 2038, interest at 4.200% to 5.750%	$	54,365,000
2007 Series C, maturing 2010 to 2038, interest at 4.050% to 5.750%		58,075,000
2008 Series C, maturing 2010 to 2040, interest at 2.150% to 5.350%		31,295,000
Total Multiple Purpose Bonds	$	143,735,000
C. Multi-Family Mortgage Program Fund:		
Mortgage Program:		
1999 Series A, maturing 2011 to 2020, interest at 4.750% to 5.125%	$	2,975,000
1999 Series B, maturing 2011 to 2030, interest at 5.550% to 6.000%		3,425,000
1999 Series C and D, maturing 2011 to 2021, interest at 5.300% to 5.800%		15,320,000
2000 Series A, maturing 2011 to 2039, interest at 5.900%		4,845,000
2000 Series B, C, and D, maturing 2010 to 2031, interest at 5.650% to 6.700%		1,900,000
2001 Series A, B, C, and D, maturing 2010 to 2032, interest at 5.400% to 7.270%		4,620,000
2002 Series A and B, maturing 2010 to 2039, interest at 4.650% to 7.200%		11,110,000
2003 Series A, maturing 2010 to 2043, interest at 5.050% to 5.250%		4,045,000
2003 Series C, maturing 2011 to 2034, interest at 3.950% to 5.100%		9,945,000
2004 Series A, B, and C, maturing 2010 to 2046, interest at 3.650% to 6.300%		13,485,000
2004 Series D, maturing 2010 to 2039, interest at 4.650% to 4.900%		2,640,000
2005 Series A, B, C, and D, maturing 2010 to 2035, interest at 4.400% to 5.750%		4,140,000
Total Mortgage Program		78,450,000
Direct Placement Program:		
Northgate Housing Program:		
Four series of bonds, maturing 2010 to 2031, interest at 7.085% to 8.25%	$	5,558,043
Highgate Housing Program:		
Two series of bonds, maturing 2010 to 2031, interest at 6.450% to 7.741%		850,748
Kilbourn Mobile Home Park Bond:		
Taxable bond, maturing 2010 to 2016, interest at 7.500%		179,800
T.D. Banknorth Borrowing – Chittenden Housing Corp. Bond:		
Maturing 2010 to 2012, interest at 5.410%		3,583,200
Multi-Family variable rate demand bonds, Series 1		
Maturing 2011 to 2038, interest at 4.180% to 5.490%		4,025,000
Multi-Family variable rate demand bonds, Series 2		
Maturing 2011 to 2038, interest at 3.756% to 4.610%		2,520,000
Total Direct Placement Programs		16,716,791

(Continued)

HFA Initiative Multifamily Bonds:		
2009 Series A, (NIBP Escrow Bonds) maturing 2051, interest at floating rate	$	23,000,000
Total HFA Initiative Bonds		23,000,000
Total Multi-Family Mortgage Program Fund		118,166,791
D. Operating Fund:		
Northgate Housing Site Acquisition, maturing 2010 to 2031, interest at 7%		534,461
Total bonds payable	$	751,201,252

All calendar year 2010 maturities on bonds payable occur after June 30, 2010.

NIBP Escrow Bonds are subject to mandatory redemption on December 31, 2010.

Future maturities on bonds payable as of June 30, 2010 are as follows (in thousands):

		Multi-Family Mortgage Programs						Multiple Purpose Programs	
		Mortgage Program		Direct Placement Programs		HFA Initiative Multifamily Bonds		Multiple Purpose Bonds	
		Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:									
2011	$	2,885	4,283	567	702	23,000	48	3,170	6,861
2012		3,010	4,132	337	794	—	—	3,310	6,726
2013		3,115	3,972	3,823	743	—	—	3,015	6,585
2014		2,175	3,812	324	693	—	—	2,850	6,452
2015		2,305	3,690	334	673	—	—	2,715	6,321
2016 – 2020		17,775	16,042	2,220	2,960	—	—	16,120	29,495
2021 – 2025		12,490	11,241	2,300	2,252	—	—	20,995	25,037
2026 – 2030		12,965	8,066	3,147	1,441	—	—	25,675	19,204
2031 – 2035		13,840	4,312	2,345	549	—	—	32,240	12,118
2036 – 2040		6,755	1,251	1,320	102	—	—	33,645	3,266
2041 – 2045		925	176	—	—	—	—	—	—
2046 – 2047		210	12	—	—	—	—	—	—
Total	$	78,450	60,989	16,717	10,909	23,000	48	143,735	122,065

	Single Family Mortgage Programs							
	Housing Program		Mortgage Revenue Bonds		Operating Fund		Agency totals	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
Year ending June 30:								
2011	$ 9,185	18,025	102,000	214	11	37	140,818	30,170
2012	9,050	17,631	—	—	12	37	15,719	29,320
2013	9,130	17,234	—	—	12	36	19,095	28,570
2014	9,545	16,826	—	—	13	35	14,907	27,818
2015	10,400	16,389	—	—	14	34	15,768	27,107
2016 – 2020	63,760	73,885	—	—	88	154	99,963	122,536
2021 – 2025	75,525	57,583	—	—	123	118	111,433	96,231
2026 – 2030	84,780	38,740	—	—	173	69	126,740	67,520
2031 – 2035	90,155	17,443	—	—	88	9	138,668	34,431
2036 – 2040	25,235	1,796	—	—	—	—	66,955	6,415
2041 – 2045	—	—	—	—	—	—	925	176
2046 – 2047	—	—	—	—	—	—	210	12
Total	$ 386,765	275,552	102,000	214	534	529	751,201	470,306

A summary of bonds payable, discount on bonds, and premium on bonds and arbitrage rebate payable activity for the year ended June 30, 2010 is as follows (in thousands):

	Balance at June 30, 2009	**Increases**	**Decreases**	**Balance at June 30, 2010**	**Amounts due within one year**	**Amounts due thereafter**
Bonds payable	$ 711,914	125,000	(85,713)	751,201	140,818	610,383
Discount on bonds	(6,092)	—	873	(5,219)	(282)	(4,937)
Premium on bonds	4,397	—	(1,166)	3,231	125	3,106
Arbitrage rebate payable	1,588	30	(401)	1,217	1,154	63

The Agency has entered into interest rate swap agreements with counterparties in connection with the Single Family Housing Bonds, Variable Rate Demand Bonds (VRDB) and T.D. Banknorth – Chittenden Housing Bond 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, 2010, debt service requirements of the variable rate bonds and net swap payments, assuming current interest rates remain constant, were as follows (in thousands):

	Variable rate		Interest rate	
	Principal	**Interest**	**swaps, net**	**Total**
Fiscal year ending June 30:				
2011	$ 1,086	533	4,940	6,559
2012	1,050	522	4,718	6,290
2013	1,095	518	4,682	6,295
2014	1,140	514	4,644	6,298
2015	2,040	509	4,600	7,149
2016 – 2020	20,580	2,354	21,338	44,272
2021 – 2025	26,605	1,795	16,631	45,031
2026 – 2030	28,535	1,226	11,687	41,448
2031 – 2035	33,590	621	6,278	40,489
2036 – 2040	20,050	108	1,428	21,586
	$ 135,771	8,700	80,946	225,417

A summary of the swap agreements follows:

Issue	Counterparty	Ratings (Moody's/S&P)	Effective date	Notional amount	Termination date	Termination option date	Fixed swap payment rate	Variable receivable rate	Fair value at June 30, 2010
Series 17	UBS AG	Aa3/A+	4/23/2003	$ 4,630,000	5/1/2019	—	3.182%	70% of LIBOR	$ (301,029)
Series 19	UBS AG	Aa3/A+	4/8/2004	6,400,000	11/1/2027	—	3.492	70% of LIBOR	(655,044)
Series 20	UBS AG	Aa3/A+	8/12/2004	6,650,000	5/1/2028	11/1/2014	4.166	70% of LIBOR	(688,535)
Series 21	UBS AG	Aa3/A+	11/30/2004	9,550,000	5/1/2029		3.682	SIFMA + 0.10% (if LIBOR < 3.00%) 68% of LIBOR (if LIBOR > 3.00%)	(1,050,467)
Series 22	UBS AG	Aa3/A+	6/8/2005	13,800,000	11/1/2034	5/1/2012	3.731	65% of LIBOR	(1,080,169)
Series 23	UBS AG	Aa3/A+	10/26/2005	14,500,000	11/1/2034	11/1/2014	3.569	65% of LIBOR + 0.28%	(1,249,225)
Series 24	UBS AG	Aa3/A+	4/19/2006	10,440,000	11/1/2035	5/1/2015	3.973	65% of LIBOR + 0.28%	(1,107,952)
Series 25	UBS AG	Aa3/A+	7/12/2006	12,945,000	11/1/2036	11/1/2015	4.251	65% of LIBOR + 0.28%	(1,726,856)
Series 26	UBS AG	Aa3/A+	10/26/2006	13,450,000	5/1/2037	5/1/2016	3.897	65% of LIBOR + 0.28%	(1,545,725)
MP2007 A	UBS AG	Aa3/A+	7/24/2007	12,800,000	5/1/2037	5/1/2017	4.197	65% of LIBOR + 0.28%	(1,786,734)
MP2007 C	UBS AG	Aa3/A+	9/12/2007	16,500,000	11/1/2037	5/1/2017	3.990	65% of LIBOR + 0.28%	(2,065,379)
MP2008 C	Wells Fargo	Aa2/AA	9/24/2008	11,605,000	5/1//2040	—	3.167	SIFMA + 0.05%	(658,657)
TD BankNorth Chittenden Housing	TD Bank	Aa2/AA-	6/28/2006	3,590,260	6/28/2011	—	5.410	69% of LIBOR	(133,690)
Series 1-A	Key Bank	Aa2/AA-	1/25/2007	630,000	1/1/2022	—	4.240	SIFMA + 0.15%	(81,771)
Series 1-B	Key Bank	A2/A-	1/25/2007	1,715,000	1/1/2022	—	4.180	SIFMA + 0.10%	(221,742)
Series 1-C	Key Bank	A2/A-	1/25/2007	1,680,000	1/1/2022	—	5.490	LIBOR + 0.05%	(368,923)
Series 2-A	Key Bank	A2/A-	1/24/2008	1,270,000	1/5/2023	—	3.800	SIFMA + 0.15%	(110,242)
Series 2-B	Key Bank	A2/A-	1/24/2008	265,000	1/5/2023	—	3.756	SIFMA + 0.10%	(23,174)
Series 2-C	Key Bank	A2/A-	1/24/2008	985,000	1/5/2023	—	4.610	LIBOR + 0.05%	(140,667)
				$ 143,405,260					$ (14,995,981)

By using derivative financial instruments to hedge exposures to changes in interest rates, the Agency exposes itself to credit, market risk 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 rating is 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.

(Continued)

(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, 2010, the Agency had outstanding borrowings totaling $5,514,179 which are secured by mortgage loans with a carrying value of $6,100,293. These borrowings have interest rates ranging from 6.32% to 7.66% and mature through December 2018.

The Agency is operating under unsecured variable rate lines of credit that total $74,525,000 with lending institutions expiring in 2011 and 2012. At June 30, 2010, there was a $25,637,642 balance outstanding at 1.50% to 4.50%. 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 July 2010. The note is uncollateralized.

The Agency has a $1,000,000 note payable to the MacArthur Foundation at a rate of 2.0%, maturing in 2019. The proceeds of this note will be used to provide low cost pre-development, energy, and equity bridge loans to multi-family housing projects.

The Agency has an unsecured line of credit with a bank for $20,000,000 for the purpose of acquiring mortgage backed securities prior to the issuance of single family bonds. This line of credit bears interest at a floating rate based on overnight LIBOR. There was no balance outstanding at June 30, 2010.

Future maturities on notes payable and line of credit borrowings as of June 30, 2010 are as follows (in thousands):

	Operating Fund		Multi Family Direct Placement Program		Agency totals	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:						
2011	$ 699	466	6,142	568	6,841	1,034
2012	2,286	432	17,454	157	19,740	589
2013	230	373	—	—	230	373
2014	247	356	—	—	247	356
2015	340	338	—	—	340	338
2016 – 2019	5,254	641	—	—	5,254	641
Total	$ 9,056	2,606	23,596	725	32,652	3,331

A summary of line of credit borrowings and notes payable activity for the year ended June 30, 2010 is as follows (in thousands):

	Balance at June 30, 2009	Increases	Decreases	Balance at June 30, 2010	Amounts due within one year	Amounts due thereafter
Line of credit borrowings	$ 20,930	21,993	(17,285)	25,638	6,142	19,496
Notes payable	6,244	1,000	(230)	7,014	699	6,315
	$ 27,174	22,993	(17,515)	32,652	6,841	25,811

(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 assets 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 noncontributory defined contribution pension plan. For the year ended June 30, 2010, the Agency had a total payroll of $2,160,701 of which $2,122,469 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 $218,782 for the year ended June 30, 2010, 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, 2010, the Agency redeemed $380,000 of its Home Mortgage Purchase Program Bonds, $50,060,000 of its Single–Family Housing Program Bonds, $13,720,000 of its Multiple Purpose Bonds, and $6,485,000 of its Multi-Family Mortgage Bonds. A gain on bond redemptions of $130,944 was recognized which represents the unamortized balance of bond premium and discount and cost of issuance costs associated with the bonds retired.

(Continued)

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

Home Mortgage Purchase Program:		
1989 Series B	$	380,000
	$	380,000
Single Family Housing Program:		
Series 9	$	1,800,000
Series 10		1,325,000
Series 11		800,000
Series 12		635,000
Series 13		1,400,000
Series 14		1,595,000
Series 15		1,865,000
Series 16		5,515,000
Series 17		2,770,000
Series 18		3,135,000
Series 19		1,605,000
Series 20		3,800,000
Series 21		2,400,000
Series 22		2,300,000
Series 23		3,655,000
Series 24		5,315,000
Series 25		6,450,000
Series 26		2,280,000
Series 27		1,415,000
	$	50,060,000
Multiple Purpose Bonds:		
2007 Series A, B	$	4,405,000
2007 Series C		5,305,000
2008 Series C		4,010,000
	$	13,720,000
Multi-Family Mortgage Bonds:		
1999 Series C, D	$	6,485,000
	$	6,485,000

(13) Federal Programs

In fiscal year 2010, the Agency participated in three new federal funding programs under the American Recovery and Reinvestment Act of 2009 (ARRA) and Federal Housing and Economic Recovery Act of 2008 (HERA):

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 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 Section 42 Housing Credits. As of June 30, 2010, the Agency had distributed $846,236 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, 2010, VHFA had exchanged approximately $1.38 million of credits for $11.7 million in awarded funds and made distributions of $9.3 million.

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 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. Sales proceeds are recycled to acquire additional properties until 2013 to leverage the original $7.0 million to a goal of $10 million over the next three years. The NSP program requires all States receiving these funds to fully obligate those funds by no later than 9-30-2010 or return them to HUD. Vermont was one of the first states in the country to fully allocate the NSP funds it had received within the first 9 months of the program start up. As of June 30, 2009, VHFA had purchased 30 homes worth $4 million and sold 4 homes at an aggregate price of $400,000.

(14) Commitments and Contingencies

At June 30, 2010, the Agency had outstanding commitments in the amount of $8,086,097 to purchase mortgage loans or mortgage backed securities pursuant to its normal funding from bond proceeds. In addition, there were commitments of $35,751,500 for general loans or future program subsidy purposes.

Under the Single Family Mortgage Programs, the Agency has obtained surety bonds in the amount of $23,534,719 expiring between 2030 and 2038, 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) Subsequent Events

On September 1, 2010, the federal NIBP was extended to December 31, 2011 under favorable terms to participating Housing Finance Agencies. The extension provides an additional year for HFAs to roll out escrow bonds.