VERMONT HOUSING FINANCE AGENCY

(A Component Unit of the State of Vermont)

Financial Statements and
Required Supplementary Information

June 30, 2013

(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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Vermont Housing Finance Agency (the Agency), component unit of the State of Vermont, as of and for the year ended June 30, 2013, 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, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Vermont Housing Finance Agency early implemented GASB No. 65, *Items Previously Reported as Assets and Liabilities*.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 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 27, 2013 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 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 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.

Baltimore, Maryland
September 27, 2013

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, 2013. 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 over $3 billion aggregate principal amount of bonds, notes and line of credit borrowings, of which $537.1 million was outstanding as of June 30, 2013, 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.

During fiscal year 2013, the Agency implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Accordingly, certain items that the Agency previously reported as assets and liabilities are now treated as deferred outflows of resources or recognized as expenses or income as incurred. The Agency's beginning net position decreased $8.6 million due to this change in accounting principle. The 2012 balances reported in the MD&A tables have been restated to reflect the effect of the new GASB statement.

Summary of Net Position

The Agency's Statement of Net Position consists primarily of Single Family and Multi-Family mortgage loans, mortgage backed securities (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 deferred costs.

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, 2013 with comparative data from the prior fiscal year (dollars in thousands)

	2013	2012 (as restated)	Percentage change
Assets:			
Cash and investments	$ 91,771	175,264	(47.6)%
Loans receivable, net	378,926	437,660	(13.4)
Mortgage backed securities	139,892	104,773	33.5
Other assets	9,665	10,420	(7.2)
Total assets	620,254	728,117	(14.8)
Deferred Outflows of Resources:			
Interest rate swap agreements	11,490	16,030	(28.3)
Liabilities:			
Bond and notes payable	537,085	632,843	(15.1)
Other liabilities	21,597	33,215	(35.0)
Total liabilities	558,682	666,058	(16.1)
Net position:			
Invested in capital assets	756	810	(6.7)
Restricted for bond resolutions	66,305	72,720	(8.8)
Unrestricted	6,001	4,559	31.6
Total net position	$ 73,062	78,089	(6.4)%

Total assets decreased by $107.9 million or 14.8% for the fiscal year ended June 30, 2013 when compared to the year ended June 30, 2012. The change in assets is primarily the result of:

- Overall cash and investments decreased by $83.5 million, or 47.6% from June 30, 2012 due to the following: the acquisition of mortgage backed securities funded by the $14.9M of unexpended proceeds from Multiple Purpose 2012 ABC bonds issued in May 2012, the return of $16M in unused NIBP escrow bonds to the US Treasury in December 2012 and the conversion of the remaining $50M NIBP escrow bonds to the Mortgage Revenue Bond Series 2009 SubSeries A-3 issued in December 2012.
- Mortgage loans receivable decreased a net of $58.7 million or 13.4% due mainly to the collection of outstanding mortgages. Because almost all Single Family mortgages are now being securitized as mortgage backed securities, as mortgages pay down they will not be backfilled with new loans. However, the balance in mortgage backed securities will increase. Total loan originations in the fiscal

year were $114.5 million which includes $62.8 million of loans originated using MBS or the Fannie Mae cash window.

- 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. There were no new loans originated under these programs in fiscal year 2013.

The following table summarizes the change in net mortgage loans receivable for the years ended June 30, 2013 and 2012 (dollars in thousands):

	2013	2012	Percentage change
Beginning balance	$ 437,660	500,198	(12.5)%
Whole loan originations	51,725	39,498	31.0
Tax credit exchange originations	—	1,320	(100.0)
HUD TCAP program originations	—	80	(100.0)
Cash window loans	947	392	141.6
Principal collections	(103,440)	(94,265)	9.7
Loans transferred to REO status	(6,903)	(6,604)	4.5
Loan loss provision	(116)	(1,167)	(90.1)
Provision for 1602 and TCAP reserves	—	(1,400)	(100.0)
Sales of cash window loans	(947)	(392)	141.6
Ending balance	$ 378,926	437,660	(13.4)%

The following table summarizes the change in mortgage backed securities for the year ended June 30, 2013 (in thousands):

	2013
Beginning balance	$ 104,773
Purchases	61,826
MBS sold	(7,308)
Discount paid at purchase on MBS sold	(28)
Gain on MBS sold	386
Principal paydowns	(12,841)
Discount on purchases	(184)
Amortization of discount	31
Appreciation in fair value	(6,763)
Ending balance	$ 139,892

(Continued)

Total liabilities of the Agency decreased by $107.4 million, or 16.1% for the twelve months ended June 30, 2013 when compared to the year ended June 30, 2012, primarily as the net result of changes in Bonds and Notes Payable of $95.8 million, due to the following transactions:

- The issuance of $50 million of Single Family Mortgage Revenue Bonds under the NIBP Program in December 2012 resulted in a decrease in bonds payable of $16 million; $50 million of this issue was comprised of bonds converted from escrow bonds to Treasury owned bonds. The balance of the NIBP funds remaining, or $16 million, was returned to the United States Treasury. The proceeds of the sale are being used to purchase new mortgage backed securities.

- The issuance of $26.5 million of Multi-Family Mortgage Bonds in December 2012 resulted in a net increase in bonds payable of $9.9 million as $16.5 million of this issue was comprised of bonds refunded from Multi-Family Bonds Series 1999B, Series 2001 ABCD and Series 2002AB. The refunded bonds, MF Series 1999B, Series 2001 ABCD and Series 2002AB bonds, were redeemed on January 22, 2013. The proceeds of the sale were used to reduce the interest rate and extend the terms of existing multifamily loans and to extend additional financing.

- A pay down of $22.4 million of Single Family Housing bonds in November 2012; of this amount, $20 million reflected redemptions due to mortgage prepayments and $2.4 million in scheduled bond maturities.

- A pay down of $21.1 million of Single Family Housing bonds in May 2013; of this amount, $19.1 million reflected redemptions due to mortgage prepayments and $2.0 million in scheduled bond maturities.

- A pay down of $18.5 million of Multiple Purpose bonds in November 2012; of this amount, $17.0 million reflected redemptions due to mortgage prepayments and $1.5 million in scheduled bond maturities.

- A pay down of $17.5 million of Multiple Purpose bonds in May 2013; of this amount, $15.4 million reflected redemptions due to mortgage prepayments and $2.1 million in scheduled bond maturities.

- A pay down of $2.2 million of Multi-Family Mortgage bonds in August 2012; of this amount, $1.3 million reflected redemptions due to mortgage prepayments and $0.9 million in scheduled bond maturities.

- A pay down of $0.7 million of Multi-Family Mortgage bonds in February 2013; of this amount, $0.6 million reflected redemptions due to mortgage prepayments and $0.1 million in scheduled bond maturities.

- A pay down of $1.3 million of Mortgage Revenue bonds in August 2012; of this amount, $0.3 million reflected redemptions due to mortgage prepayments and $1.0 million in scheduled bond maturities.

- A pay down of $2.1 million of Mortgage Revenue bonds in February 2013; of this amount, $0.5 million reflected redemptions due to mortgage prepayments and $1.6 million in scheduled bond maturities.

(Continued)

- A pay down of $3.6 million of Multifamily Direct Placement bonds; of this amount, $3.5 million reflected a scheduled bond maturity in December 2012.
- A pay down of $0.5 million of Multifamily HFI Initiative bonds reflecting scheduled bond maturity.

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, 2013 with comparative data from the prior fiscal year (dollars in thousands):

	2013	2012 (as restated)	Percentage change
Operating revenues:			
Interest on investments	$ 2,713	2,249	20.6%
Interest on mortgage loans	23,903	27,959	(14.5)
Interest on mortgage backed securities	4,558	3,604	26.5
Fee income	792	1,002	(21.0)
Gain on sales of loans and securities	441	10	4,310.0
Gain on bond redemptions	737	364	102.5
Other revenue, net	120	81	48.1
Total operating revenues	33,264	35,269	(5.7)
Operating expenses:			
Financing costs	23,726	29,520	(19.6)
Mortgage servicing expenses	541	662	(18.3)
Operational expenses	4,248	3,969	7.0
Loan loss expenses, net	2,459	2,702	(9.0)
Total operating expenses	30,974	36,853	(16.0)
Operating income (loss)	2,290	(1,584)	N/A
Nonoperating revenues (expenses):			
Net appreciation in fair value of investments	(7,317)	3,925	N/A
Federal programs:			
Program revenue	6,035	7,763	(22.3)
Program expenses	(5,812)	(7,536)	(22.9)
Administration and period costs	(223)	(227)	(1.8)
Total nonoperating revenues	(7,317)	3,925	N/A
Increase (decrease) in net position	$ (5,027)	2,341	N/A

(Continued)

The Agency's net operating income was $2.290 million for the fiscal year ended June 30, 2013, compared to a net operating loss of $1.584 million for the fiscal year ended June 30, 2012. When net nonoperating revenues are included, the overall decrease in net position for the fiscal year ended June 30, 2013 was $5.027 million compared with a net increase in net position in the previous fiscal year of $2.341 million (due mainly to the difference in net appreciation in fair value of investments).

Income and expense highlights include:

- Interest income on loans and mortgage backed securities decreased by $3.1 million (9.8%) reflecting the effect of net portfolio runoff and the reduced spread on the whole loans converted to MBS.

- Interest income on investments increased by $464 thousand (20.6%). The main contributor to this increase was rebate arbitrage refunds from the Internal Revenue Service totaling approximately $315 thousand.

- Gain on sale of loans and securities increased $431 thousand due mainly to a gain on sale of mortgage-backed securities of $386 thousand and a gain on sale of loans for cash of $42 thousand. Similar transactions did not occur in the previous fiscal year.

- Financing costs decreased $5.8 million (19.6%) relative to the same period prior year due to the net reduction in outstanding bonds and notes payable of $95.8 million and the reduction of interest rates and remarketing fees paid on variable rate debt. Remarketing fees were reduced by replacing KeyBank as remarketing agent with Wells Fargo and BNY Mellon.

- Operational expenses increased by 7% compared to the prior year. Salary and benefits expenses increased $118 thousand (4%) mainly due to a small increase in staff headcount as well as the impact of annual staff merit increases. There was also an increase in the number of employees electing to join the Agency's health insurance plan. Consulting expenses increased $90.3 thousand or 81% due to the hiring of BLX to complete much of the Agency's rebate arbitrage calculations. Operating expenses also included the cost of running the bi-annual statewide Vermont Housing Conference, which are offset by revenue earned from collecting registration fees and sponsorships. Mortgage servicing fees were lower in 2013 by $121 thousand as the Single Family loan portfolio continues to pay down over time. Because of the migration to the mortgage backed securities strategy, loans are now being securitized into MBS's. Therefore, the Single Family portfolio is not being replenished as older loans are being paid off.

- The Agency saw a decrease in Single Family and Multi-Family loan losses and loss provisions from $2.7 million in FY 2012 to $2.46 million in FY 2013. The Agency has worked aggressively to mitigate loan losses and continues to take a more conservative approach to reserving for future losses.

(Continued)

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 2013, the Agency budgeted $1.54 million in operating revenues and $4.97 million in operating expenses. Actual operating revenues of $2.06 million were over budget by $511 thousand, and actual operating expenses of $4.65 million were under budget by $329 thousand.

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 of 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 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, 2013

(dollars 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	$ 548	—	—	—	548
Restricted	2,106	38,236	16,070	10,877	67,289
Certificate of deposit	100	—	—	—	100
Accrued interest receivable:					
Investments	—	194	73	117	384
Mortgage loans	1,212	892	703	390	3,197
Mortgage backed securities	—	309	105	—	414
Current portion of mortgage loans receivable	2,519	3,677	3,328	17,122	26,646
Current portion of mortgage backed securities	—	2,140	812	—	2,952
Other receivables and prepaid expenses	56	203	120	44	423
Due from other funds	510	—	60	—	570
Total current assets	7,051	45,651	21,271	28,550	102,523
Noncurrent assets:					
Investments	—	11,988	7,035	4,811	23,834
Mortgage loans receivable, net	8,399	134,541	111,182	98,158	352,280
Mortgage backed securities	—	100,233	36,707	—	136,940
Capital assets	756	—	—	—	756
Real estate owned	729	1,974	1,218	—	3,921
Total noncurrent assets	9,884	248,736	156,142	102,969	517,731
Total assets	16,935	294,387	177,413	131,519	620,254
Deferred Outflows of Resources					
Accumulated decrease in fair value of hedging derivatives - Interest rate swaps	—	6,553	3,867	1,070	11,490
Liabilities					
Current liabilities:					
Notes payable	242	—	—	9,771	10,013
Current portion of bonds payable	—	5,200	3,425	1,889	10,514
Accrued interest payable	39	2,347	940	1,181	4,507
Current portion of unamortized bond premium (discount)	—	57	34	(3)	88
Other payables	529	249	86	4	868
Funds held on behalf of mortgagors	1,403	—	—	692	2,095
Due to other funds	—	—	—	570	570
Total current liabilities	2,213	7,853	4,485	14,104	28,655
Noncurrent liabilities:					
Notes payable	7,619	—	—	7,619	15,238
Bonds payable, net of current portion	—	268,155	136,685	96,480	501,320
Fair value of derivative instrument - interest rate swaps	—	6,553	3,867	1,070	11,490
Unamortized bond premium (discount), net	—	850	883	(100)	1,633
Deferred income	346	—	—	—	346
Total noncurrent liabilities	7,965	275,558	141,435	105,069	530,027
Total liabilities	10,178	283,411	145,920	119,173	558,682
Net Position					
Invested in capital assets	756	—	—	—	756
Restricted for bond resolutions	—	17,529	35,360	13,416	66,305
Unrestricted	6,001	—	—	—	6,001
Total net position	$ 6,757	17,529	35,360	13,416	73,062

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, 2013

(dollars in thousands)

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Bond Fund	Multi-Family Mortgage Program Fund	Total
Operating revenues:					
Interest income:					
Investments	$ —	1,786	535	392	2,713
Mortgage loans	684	9,326	7,669	6,224	23,903
Mortgage backed securities	72	3,020	1,466	—	4,558
Fee income	739	—	46	7	792
Gain on sales of loans and securities	441	—	—	—	441
Gain on bond redemptions, net	—	437	300	—	737
Other revenue	120	—	—	—	120
Total operating revenues	2,056	14,569	10,016	6,623	33,264
Operating expenses:					
Financing costs, including interest expense and amortization of bond premium and discount, net	581	11,433	6,843	4,869	23,726
Mortgage service and contract administration fees	2	304	235	—	541
Salaries and benefits	2,981	—	—	—	2,981
Operating expenses	745	68	26	83	922
Professional fees	103	24	31	14	172
Trustee and assignee fees	169	4	—	—	173
Provision for losses on loans and real estate owned	65	1,104	1,073	217	2,459
Total operating expenses	4,646	12,937	8,208	5,183	30,974
Operating income (loss)	(2,590)	1,632	1,808	1,440	2,290
Nonoperating revenues (expenses):					
Net depreciation in fair value of investments	—	(5,448)	(1,835)	(34)	(7,317)
Federal programs:					
Program revenue	6,035	—	—	—	6,035
Program expenses	(5,812)	—	—	—	(5,812)
Administration and period costs	(223)	—	—	—	(223)
Total nonoperating revenues (expenses)	—	(5,448)	(1,835)	(34)	(7,317)
Income (loss) before transfers	(2,590)	(3,816)	(27)	1,406	(5,027)
Net transfers from (to) other funds	3,390	(1,954)	(568)	(868)	—
Increase (decrease) in net position	800	(5,770)	(595)	538	(5,027)
Net position:					
Net position at beginning of year, as previously reported	5,369	27,446	39,609	14,245	86,669
Cumulative effect of change in accounting principle	588	(4,147)	(3,654)	(1,367)	(8,580)
Net position at beginning of year, as restated	5,957	23,299	35,955	12,878	78,089
Net position at end of year	$ 6,757	17,529	35,360	13,416	73,062

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, 2013

(dollars 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	$ 177	9,512	7,799	6,202	23,690
Mortgage backed securities interest receipts	72	2,929	1,483	—	4,484
Mortgage loans principal collections	3,958	35,611	26,186	38,634	104,389
Mortgage backed securities sales and paydowns	7,299	7,828	5,022	—	20,149
Mortgage loan originations	(6,107)	—	—	(48,146)	(54,253)
Mortgage backed securities purchases	(7,299)	(43,913)	(10,820)	—	(62,032)
Fee income and other receipts	1,313	—	46	(6)	1,353
Salaries and benefits payments	(2,978)	—	—	—	(2,978)
Operating expense payments	(924)	100	(65)	(89)	(978)
Service fee and other payments	(2)	(310)	(235)	—	(547)
Federal program receipts	5,224	—	—	—	5,224
Federal program expenditures	(6,035)	—	—	—	(6,035)
Operating transfers from (to) other funds	—	(901)	(463)	1,364	—
Net cash (used in) provided by operating activities	(5,302)	10,856	28,953	(2,041)	32,466
Cash flows from investing activities:					
Investment sales	—	—	—	217	217
Investment interest receipts	1	1,674	543	399	2,617
Decrease in funds held on behalf of mortgagors	(260)	—	—	(3,518)	(3,778)
Sales of distressed properties	160	3,779	2,344	—	6,283
Distressed property expenditures	1,094	(387)	(70)	(3)	634
Payment to IRS to rebate excess earnings	—	(464)	—	(470)	(934)
Net cash provided by (used in) investing activities	995	4,602	2,817	(3,375)	5,039
Cash flows from noncapital financing activities:					
Bond and note interest payments	(532)	(10,713)	(6,838)	(4,503)	(22,586)
Bond principal payments	—	(112,765)	(36,020)	(23,574)	(172,359)
Repayment of notes	(4,620)	—	—	(16,494)	(21,114)
Bond issue proceeds	—	49,933	(41)	26,352	76,244
Increase in notes payable	500	—	—	20,759	21,259
Bond insurance payments	—	(159)	(46)	(4)	(209)
Costs of bond issuance	(50)	(661)	(226)	(460)	(1,397)
Noncapital financing transfers from (to) other funds	4,548	(1,574)	(518)	(2,456)	—
Net cash used in noncapital financing activities	(154)	(75,939)	(43,689)	(380)	(120,162)
Cash flows from capital related financing activities:					
Capital asset purchases	(65)	—	—	—	(65)
Net cash used in capital related financing activities	(65)	—	—	—	(65)
Net decrease in cash and cash equivalents	(4,526)	(60,481)	(11,919)	(5,796)	(82,722)
Cash and cash equivalents at beginning of year	7,180	98,717	27,989	16,673	150,559
Cash and cash equivalents at end of year	$ 2,654	38,236	16,070	10,877	67,837

(Continued)

VERMONT HOUSING FINANCE AGENCY

(A Component Unit of the State of Vermont)

Statement of Cash Flows - Continued

Year ended June 30, 2013

(dollars 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 (loss) income	$ (2,590)	1,632	1,808	1,440	2,290
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	119	—	—	—	119
Amortization of costs of bond issuance	49	661	226	460	1,396
Investment interest income	1	(1,475)	(535)	(389)	(2,398)
Sales of distressed properties	(160)	(3,779)	(2,344)	—	(6,283)
Distressed property expenditures	(1,758)	1,007	892	3	144
Arbitrage rebate	—	(311)	—	(3)	(314)
Bond and note interest expense	531	10,608	6,571	4,406	22,116
Gain on bond redemptions	—	(437)	(300)	—	(737)
Bond insurance expense	—	159	46	4	209
Appreciation in fair value of investments	—	(5,420)	(1,344)	—	(6,764)
Changes in assets and liabilities:					
(Increase) decrease in accrued interest receivable	(508)	93	148	(22)	(289)
(Increase) decrease in mortgage loans receivable	(166)	38,586	28,248	(7,933)	58,735
Increase in mortgage backed securities	—	(30,664)	(4,455)	—	(35,119)
Decrease in other receivables and prepaid expenses	2	13	4	2	21
Decrease in deferred income	(797)	—	—	—	(797)
(Decrease) increase in other payables	(25)	183	(12)	(9)	137
Net cash (used in) provided by operating activities	$ (5,302)	10,856	28,953	(2,041)	32,466

Supplemental noncash operating/investing activities:
Mortgage loans receivable converted to real estate owned amounted to $6,903 in 2013

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 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 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 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, 2013, reserve requirements totaled $6.476 million for the Single Family Mortgage Programs, $4.428 million for the Multiple Purpose Programs and $5.388 million for the Multi-Family Mortgage Programs. Amounts held in reserve accounts as of June 30, 2013 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.

The Agency implemented the provisions of Governmental Accounting Standards (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 FASB and AICPA Pronouncements.* Prior to the adoption of this standard, the Agency elected to adopt all Financial Accounting Standards Board (FASB) statements issued after November, 1989 that did not conflict with GASB standards. With the adoption of Statement No. 62, the Agency no longer adopts or applies FASB statements.

(b) Net Position

Net Position has 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 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. 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 receivable 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.

Loan loss allowances are established based on historical loss experience. Future additions to allowances may be necessary based on changes in economic conditions. At June 30, 2013, the allowances for loan losses totaled $8.9 million, broken out as follows: $4.4 million for Operating Fund mortgage loans, $1.0 million for Single Family mortgage loans, $2.7 million for Multiple Purpose mortgage loans and $0.8 million for Multi-Family mortgage loans.

The reserve for federally funded mortgage loans made under Section 1602 and the Tax Credit Assistance Program (TCAP) held in the Operating Fund is $19.6 million.

Included in mortgage loans receivable are $9.7 million of multi-family 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. Included in loan loss allowances are $2.2 million for mortgages funded by excess yield.

(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 increase (decrease) 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 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 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) consist 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 $88,000; $86,000; $83,000; $80,000 and $78,000 for the five years ending June 30, 2014 through 2018, 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 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.

(m) Operating and Non-operating 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. Net appreciation and depreciation in the fair value of investments and federal grant revenues and expenses are recorded as non-operating revenues and expenses. 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.

Grants received from federal, state and local governments are recognized as non-operating 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.

(o) New Accounting Principles and Restatement of Net Position

The Agency implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in fiscal year 2013. Under Governmental Accounting Principles, transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods are distinguished from assets and liabilities and identified as deferred outflows or inflows of resources. GASB Statement No. 63 provides guidance for reporting deferred outflows or inflows or resources and in accordance with the new standard, the Agency is reporting the Accumulated Decrease in Fair Value of Hedging Derivatives from Interest Rate Swaps in a separate "Deferred Outflows of Resources" section of the Statement of Net Position. Under GASB Statement No. 63, The Statement of Net Position replaces the Statement of Net Assets. Net Position is the difference between Net Assets and Deferred Outflows of Resources less Net Liabilities and Deferred Inflows of Resources.

During fiscal year 2013, the Agency implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes standards that reclassify certain items that were previously reported as assets and liabilities as deferred outflows or inflows of resources and recognize certain other items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The cumulative effect of implementing GASB Statement No. 65 is as follows:

	Increase (Decrease) to June 30, 2012 net position
Deferred cost of bond issuance restated from asset to outflow of resources (expense)	$ (7,153)
Deferred mortgage origination costs restated from asset to outflow of resources (expense)	(284)
Prepaid expenses restated from asset to outflow of resources (expense)	(1,731)
Deferred revenue restated from liability to inflow of resources (revenue)	588
Cumulative effect of change in accounting principle	$ (8,580)

(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 (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 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, 2013. 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, 2013 totaled $4.306 million. Of this amount, $2.242 million was exposed to custodial credit risk as uninsured and uncollateralized.

(b) Cash and Investments

The Agency's cash and investments at June 30, 2013 are presented below (dollars in thousands).

		Investment maturities (in years)			
Investment type	**Fair value**	**Less than 1**	**1 – 5**	**6 – 10**	**More than 10**
Cash	$ 4,306	4,306	—	—	—
Money market accounts	34,949	34,949	—	—	—
Certificate of deposit	100	100	—	—	—
Guaranteed investment contracts	44,339	28,582	—	—	15,757
U.S. Treasury securities	6,701	—	6,701	—	—
Government agency securities	1,376	—	569	—	807
Mortgage backed securities	139,892	2,952	—	335	136,605
Total cash and investments	$ 231,663	70,889	7,270	335	153,169

The following table provides information on the credit ratings associated with the Agency's cash and investments at June 30, 2013 (in thousands):

Investment type	Fair value	AAA	AA	A	NR
Cash	$ 4,306	—	—	—	4,306
Money market accounts	34,949	—	—	—	34,949
Certificate of deposit	100	—	—	—	100
Guaranteed investment contracts	44,339	—	9,559	34,780	—
U.S. Treasury securities	6,701	6,701	—	—	—
Government agency securities	1,376	1,376	—	—	—
Mortgage backed securities	139,892	139,892	—	—	—
Total cash and investments	$ 231,663	147,969	9,559	34,780	39,355

(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 19% of the Agency's cash and investments are invested in guaranteed investment contracts. AIG, Transamerica, Natixis, Bayerische LB, PNC, Credit Agricole, and Assured Guaranty are 43%, 19%, 19%, 6%, 5%, 5%, and 3%, respectively, of the Agency's total guaranteed investment contracts (GICs). 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 0% to 9.1%. Mortgage payments are received monthly by the Agency from which service fees are generally retained by servicing lenders or sub-servicers.

At June 30, 2013, approximately 52% 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 predominantly from 0% to 10.5%, 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, 2013 is as follows (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	746	14	760
Computer equipment	1,027	51	1,078
Furniture and fixtures	200	—	200
Total capital assets being depreciated	2,974	65	3,039
Less accumulated depreciation for:			
Building	(438)	(25)	(463)
Building improvements	(667)	(14)	(681)
Computer equipment	(911)	(78)	(989)
Furniture and fixtures	(198)	(2)	(200)
Total accumulated depreciation	(2,214)	(119)	(2,333)
Total capital assets being depreciated, net	760	(54)	706
Capital assets, net	$ 810	(54)	756

Depreciation expense of $119 thousand was charged to the Operating Fund.

(6) Real Estate Owned

Real estate owned (REO) at June 30, 2013 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 20, 2013 the net realizable value of REO properties held by the Agency totals $3.291 million, of which $729 thousand is related to the Operating Fund, $1.974 million to the Single Family Fund and $1.218 million to the Multi-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, 2013 are as follows (dollars in thousands):

A. Single Family Mortgage Program Fund:		
Housing Program:		
Series 17, maturing 2013 to 2033, interest at 3.182%	$	2,505
Series 19, maturing 2013 to 2035, interest at 3.492% to 4.750%		9,600
Series 20, maturing 2013 to 2035, interest at 4.166% to 5.250%		9,910
Series 21, maturing 2013 to 2035, interest at 3.400% to 5.000%		16,885
Series 22, maturing 2013 to 2035, interest at 3.731% to 4.700%		17,725
Series 23, maturing 2013 to 2035, interest at 3.569% to 4.700%		25,530
Series 24, maturing 2013 to 2036, interest at 3.973% to 5.000%		15,715
Series 25, maturing 2013 to 2037, interest at 4.251% to 6.000%		21,830
Series 26, maturing 2013 to 2038, interest at 3.897% to 5.750%		24,600
Series 27, maturing 2013 to 2038, interest at 4.200% to 5.500%		22,940
Total Housing Program		167,240
Mortgage Revenue Bonds (Mortgage Backed Securities Program):		
Series 2009A Sub-1, maturing 2028 to 2041, interest at 3.010%		16,860
Series 2010A, maturing 2013 to 2028, interest 1.150% to 4.500%		10,390
Series 2009A Sub-2, maturing 2028 to 2041, interest at 2.320%		17,430
Series 2011A, maturing 2013 to 2028, interest at 0.750% to 4.500%		11,435
Series 2009A Sub-3, maturing 2014 to 2041, interest at 2.49%		50,000
Total Mortgage Revenue Bond Program		106,115
Total Single Family Mortgage Program Fund		273,355
B. Multiple Purpose Bond Program Fund:		
Multiple Purpose Bonds:		
2007 Series A and B, maturing 2013 to 2038, interest at 4.150% to 5.750%		24,535
2007 Series C, maturing 2013 to 2038, interest at 3.990% to 5.750%		33,270
2008 Series C, maturing 2013 to 2040, interest at 3.167% to 5.350%		20,450
2012 Series A, B and C, maturing 2013 to 2042, interest at 0.900% to 4.125%		61,855
Total Multiple Purpose Bonds		140,110

C. Multi-Family Mortgage Program Fund:	
Mortgage Program:	
1999 Series C and D, maturing 2014 to 2021, interest at 5.800%	755
2000 Series A, maturing 2014 to 2039, interest at 5.900%	4,635
2000 Series B, C, and D, maturing 2013 to 2031, interest at 5.650% to 6.700%	1,080
2003 Series A, B maturing 2013 to 2043, interest at 5.050% to 5.250%	3,835
2003 Series C, maturing 2014 to 2034, interest at 4.400% to 5.100%	9,290
2004 Series A, B, and C, maturing 2013 to 2046, interest at 4.125% to 6.300%	12,525
2005 Series A, B, C, and D, maturing 2013 to 2035, interest at 4.400% to 5.750%	3,860
2012 Series A, B, and C, maturing 2013 to 2052, interest at 0.500% to 4.629%	26,455
Total Mortgage Program	62,435
Direct Placement Program:	
Kilbourn Mobile Home Park Bond:	
Taxable bond, maturing 2013 to 2017, interest at 7.500%	151
Multi-Family variable rate demand bonds, Series 1 maturing 2013 to 2038, interest at 4.180% to 5.490%	3,820
Multi-Family variable rate demand bonds, Series 2 maturing 2013 to 2038, interest at 3.756% to 4.610%	2,385
Total Direct Placement Programs	6,356
HFA Initiative Multifamily Bonds:	
2009 Series B, maturing 2013 to 2041, interest at 3.610%	6,470
2009 Series C and 2011 Series A, maturing 2013 to 2051, interest at 0.700% to 3.200%	20,145
2012 Series A, maturing 2013 to 2043, interest at 5.250%	2,963
Total HFA Initiative Bonds	29,578
Total Multi-Family Mortgage Program Fund	98,369
Total bonds payable	$ 511,834

All calendar year 2013 maturities on bonds payable occur after June 30, 2013.

Future maturities on bonds payable as of June 30, 2013 are as follows (in thousands):

Year ending June 30:	Single Family Principal	Single Family Interest	Multiple Purpose Principal	Multiple Purpose Interest	Multi-Family Principal	Multi-Family Interest	Total Principal	Total Interest
2014	$ 5,200	10,116	3,425	5,697	1,889	3,911	10,514	19,724
2015	6,735	9,938	3,515	5,625	2,341	3,847	12,591	19,410
2016	7,635	9,709	3,615	5,541	2,288	3,775	13,538	19,025
2017	8,250	9,439	4,010	5,445	2,562	3,700	14,822	18,584
2018	8,575	9,137	4,455	5,324	2,514	3,605	15,544	18,066
2019-2023	47,800	40,535	24,620	24,034	14,287	16,511	86,707	81,080
2024-2028	52,240	30,821	29,930	18,578	16,904	13,386	99,074	62,785
2029-2033	62,830	20,093	31,840	11,776	20,282	9,456	114,952	41,325
2034-2038	56,290	7,872	27,150	5,133	18,099	5,074	101,539	18,079
2039-2043	17,800	1,038	7,550	557	11,703	2,043	37,053	3,638
2044-2048	—	—	—	—	3,815	498	3,815	498
2049-2052	—	—	—	—	1,685	95	1,685	95
Total	$ 273,355	148,698	140,110	87,710	98,369	65,901	511,834	302,309

A summary of bonds payable, discount on bonds, and premium on bonds and arbitrage rebate payable activity for the year ended June 30, 2013 is as follows (in thousands):

	Beginning balance	Increases	Decreases	Ending balance	Due within one year	Due thereafter
Bonds payable	$ 607,738	76,455	(172,359)	511,834	10,514	501,320
Discount on bonds	(206)	(104)	56	(254)	(8)	(246)
Premium on bonds	2,876	—	(901)	1,975	96	1,879
Arbitrage rebate payable	1,249	—	(1,249)	—	—	—

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, 2013, 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**
2014	$ 955	307	4,521	5,783
2015	1,855	305	4,482	6,642
2016	2,770	300	4,412	7,482
2017	3,660	293	4,308	8,261
2018	4,230	283	4,171	8,684
2019-2023	28,705	1,229	18,142	48,076
2024-2028	25,810	876	13,057	39,743
2029-2033	31,470	532	8,161	40,163
2034-2038	24,965	147	2,622	27,734
2039-2040	3,860	5	138	4,003
Total	$ 128,280	4,277	64,014	196,571

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

Issue	Counter-Party	Ratings (Moody's/S&P)	Effective date	Notional amount	Termination date	Termination option date	Fixed swap payment rate	Variable receivable rate	Fair value at 6/30/2013
Series 17	Bank of New York (BONY)	Aa1/A+	4/23/2003	$ 2,505	5/1/2019	—	3.182%	70% of LIBOR	$ (155)
Series 19	BONY	Aa1/A+	4/8/2004	4,850	11/1/2027	—	3.492%	70% of LIBOR	(543)
Series 20	BONY	Aa1/A+	8/12/2004	5,100	5/1/2028	11/1/2014	4.166%	70% of LIBOR	(318)
Series 21	BONY	Aa1/A+	11/30/2004	7,200	5/1/2029	—	3.682%	SIFMA + 0.10%	(870)
Series 22	BONY	Aa1/A+	6/8/2005	13,800	11/1/2034	5/1/2015	3.731%	65% of LIBOR + .28%	(613)
Series 23	BONY	Aa1/A+	10/26/2005	14,500	11/1/2034	11/1/2014	3.569%	65% of LIBOR + .28%	(757)
Series 24	BONY	Aa1/A+	4/19/2006	10,440	11/1/2035	5/1/2015	3.973%	65% of LIBOR + .28%	(644)
Series 25	BONY	Aa1/A+	7/12/2006	12,945	11/1/2036	11/1/2015	4.251%	65% of LIBOR + .28%	(1,381)
Series 26	BONY	Aa1/A+	10/26/2006	13,450	5/1/2037	5/1/2016	3.897%	65% of LIBOR + .28%	(1,272)
MP2007 A	BONY	Aa1/A+	7/24/2007	12,800	5/1/2037	5/1/2017	4.197%	65% of LIBOR + .28%	(1,501)
MP2007 C	BONY	Aa1/A+	9/12/2007	16,500	11/1/2037	5/1/2017	3.990%	65% of LIBOR + .28%	(1,795)
MP2008 C	Wells Fargo	Aa3/AA-	9/24/2008	7,985	5/1/2040	—	3.167%	SIFMA + 0.05%	(571)
MF Series 1-A	Key Bank	A3/A-	1/25/2007	600	1/1/2022	—	4.240%	SIFMA + 0.15%	(98)
MF Series 1-B	Key Bank	A3/A-	1/25/2007	1,645	1/1/2022	—	4.180%	SIFMA + 0.10%	(265)
MF Series 1-C	Key Bank	A3/A-	1/25/2007	1,575	1/1/2022	—	5.490%	LIBOR + 0.05%	(363)
MF Series 2-A	Key Bank	A3/A-	1/24/2008	1,195	1/5/2023	—	3.800%	SIFMA + 0.15%	(154)
MF Series 2-B	Key Bank	A3/A-	1/24/2008	250	1/5/2023	—	3.756%	SIFMA + 0.10%	(32)
MF Series 2-C	Key Bank	A3/A-	1/24/2008	940	1/5/2023	—	4.610%	LIBOR + 0.05%	(158)
Total				$ 128,280					$ (11,490)

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.

(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, 2013, the Agency had outstanding borrowings totaling $4.9 million which are secured by mortgage loans with a carrying value of $5.5 million. These borrowings have interest rates ranging from 6.3% to 7.7% and mature from May 2015 through December 2018.

The Agency has a $1,000,000 note payable to the Vermont Community Foundation at a rate of 1.75%, maturing in February, 2016. The note is uncollateralized.

The Agency has a $2.0 million note payable to the MacArthur Foundation at a rate of 1.0%, maturing October, 2017 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 is operating under unsecured variable rate lines of credit that total $51.6 million with lending institutions expiring in 2013 and 2014. At June 30, 2013, there was a $17.4 million Multi-Family balance outstanding at interest rates of 1.0% to 3.0%. 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, 2013 are as follows (in thousands):

	Operating		Multi-Family		Total	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
Year ending June 30:						
2014	$ 242	377	9,771	231	10,013	608
2015	335	359	7,619	29	7,954	388
2016	1,690	326	—	—	1,690	326
2017	1,803	179	—	—	1,803	179
2018	1,013	123	—	—	1,013	123
2019 – 2020	2,778	56	—	—	2,778	56
Total	$ 7,861	1,420	17,390	260	25,251	1,680

A summary of notes payable activity for the year ended June 30, 2013 is as follows (in thousands):

	Beginning balance	Increases	Decreases	Ending balance	Current	Non-current
Line of credit borrowings	$ 17,522	20,760	(20,892)	17,390	9,771	7,619
Notes payable	7,583	500	(222)	7,861	242	7,619
Total	$ 25,105	21,260	(21,114)	25,251	10,013	15,238

(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 $229,000 for the year ended June 30, 2013, and is included in salaries and benefits expense.

(12) Gain on Bond Redemptions

During the year ended June 30, 2013, the Agency redeemed $41.676 million of its Single Family Bonds, $32.435 million of its Multiple Purpose Bonds, and $1.430 million of its Multi-Family Bonds prior to scheduled maturity dates. Net gain on bond redemptions was $737,000 and represents the unamortized balance of bond premium and discount that were written off when the bonds were retired.

(13) Federal Programs

In fiscal year 2013, the Agency participated in the following 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, 2013, the Agency had distributed the full $5.4 million 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, 2013, VHFA had exchanged approximately $1.7 million of credits for $14.2 million 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 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 2014 to leverage the original $7.0 million to a goal of $10 million prior to the end of the program. The NSP program requires all States receiving these funds to fully obligate those funds by no later than September 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, 2013, VHFA had purchased 50 homes plus two more under contract for purchase, with a total acquisition price of $5.8 million and sold 44 of those homes at aggregate sale prices of $6.9 million.

On May 11, 2011 VHFA signed a memorandum of agreement with the State of Vermont to administer $2.9 million out of $5.0 million of Neighborhood Stabilization Program (NSP-3) 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 III). The NSP-HARP III 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 2014 to leverage the original $2.9 million to a goal of $4.0 million over the life of the program (3 years). The NSP program requires all States receiving these funds to fully obligate those funds by no later than March 3, 2014. As of June 30, 2013, VHFA had purchased 18 homes

plus three more under contract for purchase, with a total acquisition price of $2.1 million, and sold eight of those homes at aggregate sale prices of $0.9 million.

During fiscal year 2013, 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 18 housing developments (357 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 $2.8 million in HAP payments under this program during the year ended June 30, 2013.

(14) Commitments and Contingencies

At June 30, 2013, the Agency had outstanding commitments in the amount of $16.9 million to purchase mortgage loans or mortgage backed securities pursuant to its normal funding from bond proceeds. In addition, there were commitments of $13.6 million for general loans or future program subsidy purposes. The Agency also had $4.1 million of outstanding commitments to purchase securities under the TBA model.

Under the Single Family Mortgage Programs, the Agency has obtained surety bonds in the amount of $13.8 million 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

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 27, 2013 (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.