VERMONT HOUSING FINANCE AGENCY

(A Component Unit of the State of Vermont)

Financial Statements and
Required Supplementary Information

June 30, 2014

(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, 2014, 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, 2014, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2014 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.

CohnReznick LLP

Baltimore, Maryland
September 26, 2014

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, 2014. 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 $3.2 billion of bonds, notes and line of credit borrowings, of which $469.3 million was outstanding as of June 30, 2014, to finance its various programs. The proceeds of the debt have been or will be used to make mortgage loans to sponsors of Multi-Family residential housing units for persons and families of low and moderate income in the State, to purchase mortgage backed securities (MBS) or mortgage loans on Single Family residential housing units for persons and families of low and moderate income in the State, and to make loans to finance Multi-Family housing developments. The bonds are secured pursuant to the terms of the resolutions under which they were issued.

Overview of the Financial Statements

The Agency's financial statements consist of three parts – Management's Discussion and Analysis, the basic financial statements and the notes to the financial statements. The basic financial statements include the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. The notes to the basic financial statements are intended to provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Summary of Net Position

The Agency's Statement of Net Position consists primarily of Single Family and Multi-Family mortgage loans, 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 real estate owned.

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

(Continued)

The following table summarizes the Net Position of the Agency as of June 30, 2014 with comparative data from the prior fiscal year (dollars in thousands)

	2014	2013	Percentage change
Assets:			
Cash and investments	$ 63,298	91,771	(31.0)%
Loans receivable, net	334,755	378,926	(11.7)
Mortgage backed securities	150,316	139,892	7.5
Other assets	8,159	9,665	(15.6)
Total assets	556,528	620,254	(10.3)
Deferred Outflows of Resources:			
Interest rate swap agreements	8,227	11,490	(28.4)
Liabilities:			
Bond and notes payable	470,700	538,806	(12.6)
Other liabilities	16,922	19,876	(14.9)
Total liabilities	487,622	558,682	(12.7)
Net position:			
Invested in capital assets	679	756	(10.2)
Restricted for bond resolutions	71,770	66,305	8.2
Unrestricted	4,684	6,001	(21.9)
Total net position	$ 77,133	73,062	5.6%

Total assets decreased by $63.7 million or 10.3% for the fiscal year ended June 30, 2014 when compared to the year ended June 30, 2013. The change in assets is primarily the result of:

- Overall cash and investments decreased by $28.5 million, or 31% from June 30, 2013 due to the following: A higher level of redemptions of Single Family, Multifamily and Multiple Purpose Bonds. Also, due to the maturity of some high-interest guaranteed investment contracts, the Agency elected to draw excess reserves and pay down bonds in lieu of holding funds in low interest bearing money markets accounts.
- Mortgage loans receivable decreased a net of $44.2 million or 11.7% due mainly to the collection of outstanding mortgages. Because almost all Single Family mortgages are now being securitized as mortgage backed securities or sold, 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 $58.5 million which includes $20.5 million of loans originated using MBS or the Fannie Mae cash window and $21.9 million using the TBA program.

- 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 2014.

The following table summarizes the change in net mortgage loans receivable for the years ended June 30, 2014 and 2013 (dollars in thousands):

	2014	2013	Percentage change
Beginning balance	$ 378,926	437,660	(13.4)%
Whole loan originations	16,178	51,725	(68.7)
Cash window loans	57	947	(94.0)
Principal collections	(57,384)	(103,440)	(44.5)
Loans transferred to REO status	(2,522)	(6,903)	(63.5)
Loan loss provision	(443)	(116)	281.9
Sales of cash window loans	(57)	(947)	(94.0)
Ending balance	334,755	378,926	(11.7)%

The following table summarizes the change in mortgage backed securities for the year ended June 30, 2014 (in thousands):

	2014
Beginning balance	$ 139,892
MBS Purchases	20,425
TBA Purchases	21,859
TBA Sold	(22,241)
Gain on TBA Sold	382
Principal Paydowns	(11,759)
Discount on purchases	(27)
Amortization of discount	33
Appreciation in fair value	1,752
Ending balance	$ 150,316

Total liabilities of the Agency decreased by $71.1 million, or 12.7% for the twelve months ended June 30, 2014 when compared to the year ended June 30, 2013, primarily as the net result of changes in Bonds and Notes Payable of $68.1 million, due to the following transactions:

- The issuance of $34.0 million of Multiple Purpose Bonds in July 2013 resulted in a net increase of $7.8 million. The proceeds of the sale were used to purchase mortgage backed securities and to refund $16.9 million in Single Family Housing Program 21 bonds and $9.3 million in Multi-Family Housing Program, 2003 Series C bonds.

- The issuance of $15.4 million of Multi-Family Mortgage Bonds in January 2014 resulted in a net increase in bonds payable of $3.2 million. The proceeds of the sale were used to finance multi-family mortgages and to refund $12.2 in Multi-Family Housing Program, 2004 Series A, B and C bonds.

- Bond principal payments of $71.1 million including $10.7 million of scheduled maturities and $30.9 million of Single Family Housing Bonds, $5.5 million in Mortgage Revenue Bonds and $24.0 million of Multiple Purpose Bonds that were redeemed prior to maturity as a result of mortgage loan prepayments received.

- A $343 thousand net decrease in unamortized bond premium and discount due to net amortization of $821 thousand partially offset by net increases of $478 thousand from new bond issues. (The June 30, 2013 net unamortized bond premium and discount balance of $1.721 million dollars was reclassified from "Other liabilities" as shown in the prior fiscal year to "Bond and notes payable" in the Liabilities section of the current fiscal year Summary of Net Position table to be consistent with the June 30, 2014 presentation).

- The issuance of a $2.8 million General Obligation Note provided by the State of Vermont used to fund energy efficiency rehabilitations in multi-family mortgages held in Multi-Family 2014 Series A, B and C.

- A $10.1 million net decrease in line of credit borrowings from lending institutions, used to fund working capital and construction projects funded by the Agency.

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, 2014 with comparative data from the prior fiscal year (dollars in thousands):

	2014	2013	Percentage change
Operating revenues:			
Interest on investments	$ 1,991	2,398	(17.0)%
Interest on mortgage loans	20,417	23,903	(14.6)
Interest on mortgage backed securities	5,216	4,558	14.4
Fee income	1,032	792	30.3
Gain on sales of loans and securities	439	441	(0.5)
Gain on bond redemptions	687	737	(6.8)
Other revenue, net	45	120	(62.5)
Total operating revenues	29,827	32,949	(9.5)
Operating expenses:			
Financing costs	20,633	23,411	(11.9)
Mortgage servicing expenses	488	541	(9.8)
Operational expenses	4,246	4,248	(0.0)
Loan loss expenses, net	1,798	2,459	(26.9)
Total operating expenses	27,165	30,659	(11.4)
Operating income	2,662	2,290	16.2
Nonoperating revenues (expenses):			
Net appreciation (depreciation) in fair value of investments	1,409	(7,317)	N/A
Federal programs:			
Program revenue	4,289	6,035	(28.9)
Program expenses	(4,106)	(5,812)	(29.4)
Administration and period costs	(183)	(223)	(17.9)
Total nonoperating revenues	1,409	(7,317)	N/A
Increase (decrease) in net position	$ 4,071	(5,027)	N/A

(Continued)

The Agency's net operating income was $2.66 million for the fiscal year ended June 30, 2014, compared to a net operating income of $2.29 million for the fiscal year ended June 30, 2013. When net nonoperating revenues are included, the overall increase in net position for the fiscal year ended June 30, 2014 was $4.07 million compared with a net decrease in net position in the previous fiscal year of $5.03 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 $2.8 million (9.9%) reflecting the effect of net portfolio runoff and the reduced spread on the whole loans converted to MBS.

- Interest income on investments decreased by $407 thousand (17.0%). A contributor to this decrease was the maturing of older high-interest guaranteed investment contracts (GIC's) that could not be replaced in the current low interest rate market. The Agency converted some Cash Reserves to Mortgage Backed Securities and used other Cash Reserves to pay down bonds.

- Fee income increased $240 thousand.

- Gain on sale of loans and securities was basically flat year over year at $439 thousand, broken out between gain on sale of loans for cash ($57 thousand) and gain on sale of securities under the TBA program ($382 thousand).

- Financing costs decreased $2.8 million (11.9%) relative to the same period prior year due to the net reduction in outstanding bonds and notes payable of $67.8 million and the reduction of interest rates and remarketing fees paid on variable rate debt. The Agency continued to renew some of its liquidity facilities at lower rates for three year terms.

- Operational expenses were flat year over year at $4.2 million. Salary and benefits expenses increased $136.9 thousand (5.1%) mainly due to a small increase in staff headcount as well as the impact of annual staff merit increases. The Agency's marketing and outreach expenses increased $44.4 thousand or 75% as the Agency kicked off a rebranding campaign during the year. Consulting expenses increased $21.1 thousand or 45.2% due to the engagement of Piper Jaffray, the Agency's Financial Advisor, to complete a long term financial forecast of its bond programs.

- Mortgage servicing fees were lower in 2014 by $53 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 $2.46 million in FY 2013 to $1.8 million in FY 2014. The Agency has worked aggressively to mitigate loan losses and continues to take a more conservative approach to reserving for future losses.

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 2014, the Agency budgeted $1.46 million in operating revenues and $5.02 million in operating expenses. Actual operating revenues of $1.81 million were over budget by $346 thousand, and actual operating expenses of $4.81 million were under budget by $213 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, 2014

(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	$ 215	—	—	—	215
Restricted	4,826	21,129	10,329	10,360	46,644
Certificate of deposit	100	—	—	—	100
Accrued interest receivable:					
Investments	—	101	66	66	233
Mortgage loans	60	625	1,827	360	2,872
Mortgage backed securities	—	294	133	—	427
Current portion of mortgage loans receivable	414	3,027	3,433	9,934	16,808
Current portion of mortgage backed securities	—	2,199	1,097	—	3,296
Other receivables and prepaid expenses	31	185	145	87	448
Due from other funds	891	—	—	—	891
Total current assets	6,537	27,560	17,030	20,807	71,934
Noncurrent assets:					
Investments	—	6,873	6,749	2,717	16,339
Mortgage loans receivable, net	8,536	103,897	116,230	89,284	317,947
Mortgage backed securities	—	98,877	48,143	—	147,020
Capital assets	679	—	—	—	679
Real estate owned	526	1,373	710	—	2,609
Total noncurrent assets	9,741	211,020	171,832	92,001	484,594
Total assets	16,278	238,580	188,862	112,808	556,528
Deferred Outflows of Resources					
Accumulated decrease in fair value of hedging derivatives - Interest rate swaps	—	3,472	3,740	1,015	8,227
Liabilities					
Current liabilities:					
Notes payable	335	—	—	1,795	2,130
Current portion of bonds payable	—	5,041	3,986	1,942	10,969
Accrued interest payable	34	1,930	963	1,070	3,997
Other payables	338	24	71	7	440
Funds held on behalf of mortgagors	2,574	—	—	422	2,996
Due to other funds	—	—	—	891	891
Total current liabilities	3,281	6,995	5,020	6,127	21,423
Noncurrent liabilities:					
Notes payable	7,284	—	—	8,249	15,533
Bonds payable, net of current portion	—	211,269	143,209	87,590	442,068
Fair value of derivative instrument - interest rate swaps	—	3,472	3,740	1,015	8,227
Other noncurrent payable	—	21	—	—	21
Deferred income	350	—	—	—	350
Total noncurrent liabilities	7,634	214,762	146,949	96,854	466,199
Total liabilities	10,915	221,757	151,969	102,981	487,622
Net Position					
Invested in capital assets	679	—	—	—	679
Restricted for bond resolutions	—	20,295	40,633	10,842	71,770
Unrestricted	4,684	—	—	—	4,684
Total net position	$ 5,363	20,295	40,633	10,842	77,133

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, 2014

(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	1,193	517	280	1,991
Mortgage loans	646	6,875	7,313	5,583	20,417
Mortgage backed securities	—	3,688	1,528	—	5,216
Fee income	987	—	45	—	1,032
Gain on sales of loans and securities	439	—	—	—	439
Gain (loss) on bond redemptions, net	—	312	377	(2)	687
Other revenue	45	—	—	—	45
Total operating revenues	2,118	12,068	9,780	5,861	29,827
Operating expenses:					
Financing costs, including interest expense and amortization of bond premium and discount, net	468	9,120	7,053	3,992	20,633
Mortgage service and contract administration fees	1	248	239	—	488
Salaries and benefits	3,130	—	—	—	3,130
Operating expenses	768	14	5	31	818
Professional fees	96	24	15	10	145
Trustee and assignee fees	153	—	—	—	153
Provision for losses on loans and real estate owned	112	397	1,058	231	1,798
Total operating expenses	4,728	9,803	8,370	4,264	27,165
Operating income (loss)	(2,610)	2,265	1,410	1,597	2,662
Nonoperating revenues (expenses):					
Net appreciation (depreciation) in fair value of investments	—	1,300	142	(33)	1,409
Federal programs:					
Program revenue	4,289	—	—	—	4,289
Program expenses	(4,106)	—	—	—	(4,106)
Administration and period costs	(183)	—	—	—	(183)
Total nonoperating revenues (expenses)	—	1,300	142	(33)	1,409
Income (loss) before transfers	(2,610)	3,565	1,552	1,564	4,071
Net transfers from (to) other funds	1,216	(799)	3,721	(4,138)	—
Increase (decrease) in net position	(1,394)	2,766	5,273	(2,574)	4,071
Net position:					
Net position at beginning of year	6,757	17,529	35,360	13,416	73,062
Net position at end of year	$ 5,363	20,295	40,633	10,842	77,133

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, 2014

(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	$ 651	7,141	7,337	5,613	20,742
Mortgage backed securities interest receipts	—	3,703	1,500	—	5,203
Mortgage loans principal collections	553	17,251	17,715	21,923	57,442
Mortgage backed securities sales and paydowns	—	8,695	3,064	—	11,759
Mortgage loan originations	(342)	—	(1,148)	(14,543)	(16,033)
Mortgage backed securities purchases	—	(6,075)	(14,356)	—	(20,431)
Fee income and other receipts	1,493	—	45	(14)	1,524
Salaries and benefits payments	(3,097)	—	—	—	(3,097)
Operating expense payments	(182)	(246)	(37)	(25)	(490)
Service fee and other payments	(1)	(248)	(239)	—	(488)
Federal program receipts	4,267	—	—	—	4,267
Federal program expenditures	(4,289)	—	—	—	(4,289)
Operating transfers from (to) other funds	3,148	12,648	(24,248)	8,452	—
Net cash provided by (used in) operating activities	2,201	42,869	(10,367)	21,406	56,109
Cash flows from investing activities:					
Investment sales	—	5,092	—	2,062	7,154
Investment interest receipts	1	1,286	523	332	2,142
Decrease in funds held on behalf of mortgagors	1,171	—	—	(270)	901
Sales of distressed properties	301	1,345	1,098	—	2,744
Distressed property expenditures	(232)	257	(292)	(44)	(311)
Net cash provided by investing activities	1,241	7,980	1,329	2,080	12,630
Cash flows from noncapital financing activities:					
Bond and note interest payments	(1,565)	(9,090)	(6,331)	(3,776)	(20,762)
Bond principal payments	—	(57,495)	(27,895)	(24,190)	(109,580)
Repayment of notes	(242)	—	—	(12,442)	(12,684)
Bond issue proceeds	—	—	34,477	15,406	49,883
Increase in notes payable	2,075	—	—	3,022	5,097
Other financing costs	(57)	(572)	(736)	(280)	(1,645)
Noncapital financing transfers from (to) other funds	(1,240)	(799)	3,782	(1,743)	—
Net cash (used in) provided by noncapital financing activities	(1,029)	(67,956)	3,297	(24,003)	(89,691)
Cash flows from capital related financing activities:					
Capital asset purchases	(26)	—	—	—	(26)
Net cash used in capital related financing activities	(26)	—	—	—	(26)
Net increase (decrease) in cash and cash equivalents	2,387	(17,107)	(5,741)	(517)	(20,978)
Cash and cash equivalents at beginning of year	2,654	38,236	16,070	10,877	67,837
Cash and cash equivalents at end of year	$ 5,041	21,129	10,329	10,360	46,859

(Continued)

VERMONT HOUSING FINANCE AGENCY

(A Component Unit of the State of Vermont)

Statement of Cash Flows - Continued

Year ended June 30, 2014

(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:					
Operating (loss) income	$ (2,610)	2,265	1,410	1,597	2,662
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	103	—	—	—	103
Amortization of costs of bond issuance	59	456	664	329	1,508
Investment interest income	—	(1,193)	(517)	(280)	(1,990)
Sales of distressed properties	(301)	(1,345)	(1,098)	—	(2,744)
Distressed property expenditures	435	346	776	—	1,557
Arbitrage rebate	—	21	—	—	21
Bond and note interest expense	408	8,528	6,355	3,665	18,956
Gain on bond redemptions	—	(312)	(377)	2	(687)
Bond insurance expense	—	116	35	—	151
Appreciation in fair value of investments	—	1,323	429	—	1,752
Changes in assets and liabilities:					
Decrease (increase) in accrued interest receivable	1,153	282	(1,151)	31	315
Decrease (increase) in mortgage loans receivable	1,967	31,295	(5,153)	16,063	44,172
(Increase) decrease in mortgage backed securities	—	1,297	(11,720)	—	(10,423)
Decrease (increase) in other receivables and prepaid	27	14	(2)	1	40
Increase (decrease) in other payables	960	(224)	(18)	(2)	716
Net cash provided by (used in) operating activities	$ 2,201	42,869	(10,367)	21,406	56,109

Supplemental noncash operating/investing activities:
Mortgage loans receivable converted to real estate owned amounted to $2,522 in 2014

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 June 2007. Monies from these programs are used by the Agency to make and finance mortgage loans to sponsors of Multi-Family residential housing units for persons and families of low and moderate income in Vermont.

(v) Reserve Requirements

Under various bond resolutions of the Agency, certain amounts from bond proceeds are required to be set aside and maintained for potential debt service requirements in trusteed accounts. As of June 30, 2014, reserve requirements totaled $4.6 million for the Single Family Mortgage Programs, $4.5 million for the Multiple Purpose Programs and $4.9 million for the Multi-Family Mortgage Programs. Amounts held in reserve accounts as of June 30, 2014 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.

During the year ended June 30, 2013, 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, 2014, the allowances for loan losses totaled $9.348 million, broken out as follows: $1.280 million for Operating Fund mortgage loans, $855 thousand for Single Family mortgage loans, $5.099 million for Multiple Purpose mortgage loans and $2.114 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.

(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 $98,000; $95,000; $91,000; $87,000 and $84,000 for the five years ending June 30, 2015 through 2019, 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.

(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, 2014. 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, 2014 totaled $6.529 million. Of this amount, $4.313 million was exposed to custodial credit risk as uninsured and uncollateralized.

(b) *Cash and Investments*

The Agency's cash and investments at June 30, 2014 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	$ 1,948	1,948	—	—	—
Money market accounts	34,707	34,707	—	—	—
Certificate of deposit	100	100	—	—	—
Guaranteed investment contracts	18,807	10,204	—	—	8,603
U.S. Treasury securities	6,354	—	6,354	—	—
Government agency securities	1,382	—	536	4	842
Mortgage backed securities	150,316	3,296	—	269	146,751
Total cash and investments	$ 213,614	50,255	6,890	273	156,196

The following table provides information on the credit ratings associated with the Agency's cash and investments at June 30, 2014 (in thousands):

Investment type	Fair value	AAA	AA	A	NR
Cash	$ 1,948	—	—	—	1,948
Money market accounts	34,707	—	—	—	34,707
Certificate of deposit	100	—	—	—	100
Guaranteed investment contracts	18,807	—	5,849	12,958	—
U.S. Treasury securities	6,354	6,354	—	—	—
Government agency securities	1,382	1,382	—	—	—
Mortgage backed securities	150,316	150,316	—	—	—
Total cash and investments	$ 213,614	158,052	5,849	12,958	36,755

(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 9% of the Agency's cash and investments are invested in guaranteed investment contracts. AIG, Transamerica, PNC, Natixis, Credit Agricole, and Bayerische LB are 36%, 31%, 15%, 12%, 5%, and 1%, 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, 2014, approximately 47% 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 8.75%, 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, 2014 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	760	—	760
Computer equipment	1,078	13	1,091
Furniture and fixtures	200	13	213
Total capital assets being depreciated	3,039	26	3,065
Less accumulated depreciation for:			
Building	(463)	(25)	(488)
Building improvements	(681)	(13)	(694)
Computer equipment	(989)	(64)	(1,053)
Furniture and fixtures	(200)	(1)	(201)
Total accumulated depreciation	(2,333)	(103)	(2,436)
Total capital assets being depreciated, net	706	(77)	629
Capital assets, net	$ 756	(77)	679

(6) Real Estate Owned

Real estate owned (REO) at June 30, 2014 consists of properties held pending sale as a result of foreclosure or repossession by the Agency. REO is carried at the lower of cost or net realizable value. At June 30, 2014 the net realizable value of REO properties held by the Agency totals $2.609 million, of which $526 thousand is related to the Operating Fund, $1.373 million to the Single Family Fund and $710 thousand to the Multiple Purpose Fund.

(7) Funds Held on Behalf of Mortgagors

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

(8) Bonds Payable

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

Outstanding bonds payable at June 30, 2014 are as follows (dollars in thousands):

A. Single Family Mortgage Program Fund:	
Housing Program:	
Series 17, maturing 2014 to 2033, interest at 3.18%	$ 1,885
Series 19, maturing 2014 to 2035, interest at 3.49% to 4.75%	6,785
Series 20, maturing 2014 to 2035, interest at 4.17% to 5.25%	7,395
Series 22, maturing 2014 to 2035, interest at 3.73% to 4.70%	14,060
Series 23, maturing 2014 to 2035, interest at 3.57% to 4.70%	21,310
Series 24, maturing 2014 to 2036, interest at 3.97% to 4.85%	11,130
Series 25, maturing 2014 to 2037, interest at 4.25% to 5.15%	16,000
Series 26, maturing 2014 to 2038, interest at 3.90% to 4.75%	20,350
Series 27, maturing 2014 to 2038, interest at 4.25% to 5.50%	18,090
Total Housing Program	117,005
Mortgage Revenue Bonds (Mortgage Backed Securities Program):	
Series 2009A Sub-1 and Series 2010 A, maturing 2014 to 2041, interest at 1.55% to 4.50%	23,625
Series 2009A Sub-2 and Series 2011A, maturing 2014 to 2041, interest at 1.10% to 4.50%	26,300
Series 2009A Sub-3, maturing 2014 to 2041, interest at 2.49%	48,930
Total Mortgage Revenue Bond Program	98,855
Total Single Family Mortgage Program Fund	215,860
B. Multiple Purpose Bond Program Fund:	
Multiple Purpose Bonds:	
2007 Series A and B, maturing 2014 to 2038, interest at 4.20% to 5.75%	20,460
2007 Series C, maturing 2014 to 2038, interest at 3.99% to 5.50%	26,290
2008 Series C, maturing 2014 to 2040, interest at 3.17% to 5.35%	14,780
2012 Series A, B and C, maturing 2014 to 2042, interest at 1.20% to 4.13%	52,775
2013 Series A, B and C, maturing 2014 to 2043, interest at .75% to 4.88%	31,860
Total Multiple Purpose Bonds	146,165

C. Multi-Family Mortgage Program Fund:	
Mortgage Program:	
1999 Series C and D, maturing 2014 to 2021, interest at 5.80%	710
2000 Series A, maturing 2015 to 2039, interest at 5.90%	4,555
2000 Series B, C, and D, maturing 2014 to 2031, interest at 5.65% to 6.70%	250
2003 Series A and B, maturing 2014 to 2043, interest at 5.05% to 5.25%	3,755
2005 Series A, B, C, and D, maturing 2014 to 2035, interest at 4.40% to 5.75%	3,760
2012 Series A, B, and C, maturing 2014 to 2052, interest at .70% to 4.63%	26,030
2012 Series A, B, and C, maturing 2014 to 2052, interest at .50% to 6.00%	15,455
Total Mortgage Program	54,515
Direct Placement Program:	
Variable rate demand bonds, Series 1 maturing 2037 to 2038, interest at 4.18% to 5.49%	3,745
Variable rate demand bonds, Series 2 maturing 2038, interest at 3.76% to 4.61%	2,335
Total Direct Placement Programs	6,080
HFA Initiative Multifamily Bonds:	
2009 Series B, maturing 2014 to 2041, interest at 3.61%	6,350
2009 Series C and 2011 Series A, maturing 2014 to 2051, interest at 1.05% to 3.20%	19,760
2012 Series A, maturing 2043, interest at 5.25%	2,929
Total HFA Initiative Bonds	29,039
Total Multi-Family Mortgage Program Fund	89,634
Total bonds payable	451,659
Plus Unamortized Bond Premium (Discount)	1,378
	$ 453,037

All calendar year 2014 maturities on bonds payable occur after June 30, 2014.

Future maturities on bonds payable as of June 30, 2014 are as follows (in thousands):

Year ending	Single Family		Multiple Purpose		Multi-Family		Total	
June 30:	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 4,985	7,632	3,940	5,861	1,946	3,401	10,871	16,894
2016	5,895	7,472	4,060	5,773	2,188	3,355	12,143	16,600
2017	6,510	7,272	4,505	5,670	2,271	3,306	13,286	16,248
2018	6,750	7,044	5,025	5,541	2,364	3,249	14,139	15,834
2019	6,975	6,802	5,240	5,377	2,437	3,181	14,652	15,360
2020-2024	38,555	29,966	28,290	23,853	11,039	14,751	77,884	68,570
2025-2029	42,930	22,347	32,840	17,694	15,454	12,362	91,224	52,403
2030-2034	52,430	13,911	32,730	10,397	18,276	8,879	103,436	33,187
2035-2039	38,790	4,851	24,005	3,926	17,152	5,044	79,947	13,821
2040-2044	12,040	546	5,530	477	12,162	1,962	29,732	2,985
2045-2049	—	—	—	—	3,175	378	3,175	378
2050-2054	—	—	—	—	1,170	53	1,170	53
Total	$ 215,860	107,843	146,165	84,569	89,634	59,921	451,659	252,333
Unamortized Premium/ (Discount)	450		1,030		(102)		1,378	
Bonds Payable	$ 216,310		147,195		89,532		$ 453,037	

A summary of bonds payable, discount on bonds, and premium on bonds and arbitrage rebate payable activity for the year ended June 30, 2014 is as follows (in thousands):

	Beginning balance	Increases	Decreases	Ending balance	Due within one year	Due thereafter
Bonds payable	$ 511,834	49,405	(109,580)	451,659	10,871	440,788
Discount on bonds	(254)	(49)	35	(268)	(18)	(250)
Premium on bonds	1,975	527	(856)	1,646	116	1,530
Arbitrage rebate payable	—	21	—	21	—	21

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, 2014, debt service requirements of the variable rate bonds and net swap payments, assuming current interest rates remain constant, are as follows (in thousands):

Year ending June 30:	Variable rate Principal	Variable rate Interest	Interest rate swaps, net	Total
2015	$ 2,175	176	4,392	6,743
2016	3,045	173	4,311	7,529
2017	3,840	168	4,197	8,205
2018	4,455	162	4,051	8,668
2019	4,575	156	3,892	8,623
2020-2024	29,250	658	16,461	46,369
2025-2029	25,345	452	11,473	37,270
2030-2034	30,305	255	6,626	37,186
2035-2039	18,965	54	1,659	20,678
2040-2040	1,505	1	32	1,538
Total	$ 123,460	2,255	57,094	182,809

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 6/30/2014
Series 17	BNY Mellon	Aa2/AA-	4/23/2003	$ 1,885	1/5/2019	—	3.18%	70% 1mo LIBOR	$ (102)
Series 19	BNY Mellon	Aa2/AA-	8/4/2004	4,400	1/11/2027	—	3.49%	70% 1mo LIBOR	(475)
Series 20	BNY Mellon	Aa2/AA-	12/8/2004	4,700	1/5/2028	11/1/2014	4.17%	70% 1mo LIBOR	(150)
Series 22	BNY Mellon	Aa2/AA-	8/6/2005	12,565	1/11/2034	5/1/2015	3.73%	65% 1mo LIBOR + 0.28%	(324)
Series 23	BNY Mellon	Aa2/AA-	10/26/2005	14,500	1/11/2034	11/1/2014	3.57%	65% 1mo LIBOR + 0.28%	(333)
Series 24	BNY Mellon	Aa2/AA-	4/19/2006	10,440	1/11/2035	5/1/2015	3.97%	65% 1mo LIBOR + 0.28%	(310)
Series 25	BNY Mellon	Aa2/AA-	12/7/2006	12,945	1/11/2036	11/1/2015	4.25%	65% 1mo LIBOR + 0.28%	(830)
Series 26	BNY Mellon	Aa2/AA-	10/26/2006	13,450	1/5/2037	5/1/2016	3.90%	65% 1mo LIBOR + 0.28%	(948)
MPB 2007A	BNY Mellon	Aa2/AA-	7/24/2007	12,800	1/5/2037	5/1/2017	4.20%	65% 1mo LIBOR + 0.28%	(1,190)
MPB 2007C	BNY Mellon	Aa2/AA-	12/9/2007	16,500	1/11/2037	5/1/2017	3.99%	65% 1mo LIBOR + 0.28%	(1,431)
MPB 2008C	Wells Fargo	Aa3/AA-	9/24/2008	6,695	1/5/2040	—	3.17%	SIFMA + 0.05%	(438)
MPB 2013A	BNY Mellon	Aa2/AA-	11/30/2004	6,500	1/5/2029	—	3.68%	SIFMA + 0.10%	(681)
MF Series 1A	KeyBank NA	A3/A-	1/25/2007	590	1/1/2022	—	4.24%	SIFMA + 0.15%	(92)
MF Series 1B	KeyBank NA	A3/A-	1/25/2007	1,615	1/1/2022	—	4.18%	SIFMA + 0.10%	(250)
MF Series 1C	KeyBank NA	A3/A-	1/25/2007	1,540	1/1/2022	—	5.49%	1mo LIBOR + 0.05%	(338)
MF Series 2A	KeyBank NA	A3/A-	1/24/2008	1,170	5/1/2023	—	3.80%	SIFMA + 0.15%	(150)
MF Series 2B	KeyBank NA	A3/A-	1/24/2008	245	5/1/2023	—	3.76%	SIFMA + 0.10%	(32)
MF Series 2C	KeyBank NA	A3/A-	1/24/2008	920	5/1/2023	—	4.61%	1mo LIBOR + 0.05%	(153)
Total				$ 123,460					$ (8,227)

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, 2014, the Agency had outstanding borrowings totaling $4.619 million which are secured by mortgage loans with a carrying value of $5.1 million. These borrowings have interest rates ranging from 6.32% to 7.66% 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 has a $2.8 million note payable to the State of Vermont at a rate of 2.76%, maturing February, 2019 through February, 2024. The proceeds of this note are to provide financing for energy efficiency projects described in Act No. 97 of the Acts of 2013.

The Agency is operating under unsecured lines of credit that total $46.2 million with lending institutions expiring in 2014 and 2015. At June 30, 2014, there was a $7.244 million Multi-Family balance outstanding at interest rates of .73% to 1.73%. 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, 2014 are as follows (in thousands):

	Operating		Multi-Family		Total	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
Year ending June 30:						
2015	$ 335	358	1,795	67	2,130	425
2016	1,690	332	5,449	9	7,139	341
2017	1,803	179	—	—	1,803	179
2018	1,013	123	—	—	1,013	123
2019	1,779	54	255	—	2,034	54
2020 - 2024	999	3	2,545	—	3,544	3
Total	$ 7,619	1,049	10,044	76	17,663	1,125

A summary of notes payable activity for the year ended June 30, 2014 is as follows (in thousands):

	Beginning balance	Increases	Decreases	Ending balance	Current	Non-current
Line of credit borrowings	$ 17,390	2,296	(12,442)	7,244	1,795	5,449
Notes payable	7,861	2,800	(242)	10,419	335	10,084
Total	$ 25,251	5,096	(12,684)	17,663	2,130	15,533

(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 $231,000 for the year ended June 30, 2014, and is included in salaries and benefits expense.

(12) Gain on Bond Redemptions

During the year ended June 30, 2014, the Agency redeemed $36.380 million of its Single Family Bonds, $23.985 million of its Multiple Purpose Bonds, and $966 thousand of its Multi-Family Bonds prior to scheduled maturity dates. Net gain on bond redemptions was $687 thousand and represents net unamortized bond premium and discount balances at the time the bonds were retired.

(13) Federal Programs

In fiscal year 2014, 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, 2012, the Agency had distributed the full $5.4 million from this program, but still has ongoing reporting obligations back to HUD on an annual basis.

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, 2012, VHFA had exchanged approximately $1.7 million of credits for $14.2 million in awarded funds, the full amount of which has been disbursed. However, the Agency still has ongoing reporting obligations back to the Treasury on an annual basis.

On June 15, 2009 VHFA signed a memorandum of agreement with the State of Vermont to administer $7.0 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. In addition to the initial $7.0

million, sales proceeds have been and will continue to be recycled until all program funding and income from sales has been invested in homes, including provisions for homebuyer subsidies. As of June 30,2014 VHFA had incurred program expenses of $14.6 million, funded by the $7.0 million NSP award and $7.6 million from the sale of rehabilitated houses.

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. NSP-HARP III, is administered as a separate and distinct pool of funds, but serves as an extension of the activities in the NSP-HARP I Program noted above. As in NSP-HARP I, sales proceeds are recycled to leverage the original $2.9 million until all funding and program income have been invested. As of June 30,2014 VHFA had incurred program expenses of $5.3 million, funded by the $2.9 million NSP award and $2.4 million from the sale of rehabilitated houses.

During fiscal year 2014, the Agency administered the "Section 8 Housing Assistance Payment Program" (HAP) under Annual Contribution Contracts (ACC) with the Department of Housing and Urban Development (HUD) for 13 housing developments (318 units). Under the ACC, VHFA receives funds from HUD with which to make housing assistance payments to an owner of assisted housing pursuant to Housing Assistance Payment Contracts entered into by HUD with the owners. Under the Section 8 program, the owner must determine the portion of the gross rent to be paid by tenants in accordance with HUD schedules and criteria, typically 30% of the tenant's adjusted income (as defined by HUD). The balance of the monthly contract rent is paid by VHFA in the form of monthly housing assistance payments. The Agency distributed $2.5 million in HAP payments under this program during the year ended June 30, 2014.

(14) Commitments and Contingencies

At June 30, 2014, the Agency had $11.7 million of outstanding commitments to purchase securities under the TBA model. In addition, there were commitments of $16.2 million for general loans

Under the Single Family Mortgage Programs, the Agency has obtained surety bonds in the amount of $12.2 million expiring between 2034 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 26, 2014 (the date the financial statements were available to be issued) and concluded that the following subsequent event has occurred that would require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.

Subsequent to the year ended June 30, 2014, the Agency issued $25,750,000 of 2014 Series A (AMT) and $20,000,000 of 2014 Series B (non AMT) Multi Purpose Bonds on August 13, 2014, out of which $27,750,000 of the principal amount of the Series bonds was used to refund certain outstanding obligations of the Agency.