



Vermont
Housing &
Conservation
Board

VERMONT HOUSING &
CONSERVATION BOARD

(A Component Unit of
the State of Vermont)

Financial Statements

Year Ending June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Vermont Housing & Conservation Board

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Vermont Housing & Conservation Board, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Vermont Housing & Conservation Board's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Vermont Housing & Conservation Board's 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Vermont Housing & Conservation Board, as of June 30, 2019 and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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 evidence sufficient to express an opinion or provide any assurance.

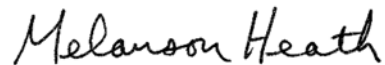
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Vermont Housing & Conservation Board's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying

accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2019 on our consideration of Vermont Housing & Conservation Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Vermont Housing & Conservation Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Vermont Housing & Conservation Board's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Melanson Heath".

October 15, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Vermont Housing & Conservation Board (VHCB), we are providing readers this narrative overview and analysis of the financial activities of VHCB for the fiscal year ended June 30, 2019.

Overview of VHCB

VHCB is a public instrumentality of the State of Vermont, established in 1987 with the purpose of improving the quality of life for Vermonters by implementing the dual goals of creating and preserving "affordable housing for Vermonters, and conserving and protecting Vermont's agricultural land, forestland, historic properties, important natural areas, and recreational lands." VHCB makes grants and loans to a variety of nonprofit organizations, including community land trusts, housing development organizations, conservation groups, municipalities, and qualifying State agencies. VHCB administers several programs that contribute to the success of its mission such as the Healthy and Lead Safe Homes Program, the AmeriCorps program with statewide participation, the Farm and Forest Viability Program, and technical assistance in various forms to aid organizations developing and stewarding projects.

VHCB Funding and Award Process

VHCB is funded primarily with state and federal funds. VHCB's primary state funding originates from the State of Vermont's Property Transfer Tax (PTT). By statute, VHCB is to receive 50% of the PTT revenue, calculated after various deductions. Notwithstanding the statutory language, the General Assembly may choose to appropriate an amount smaller than the statutory number to provide the State's general fund additional revenue to meet budgetary constraints. In some years, the PTT is then supplemented with other funding, such as capital bond proceeds or pass-through federal funds. Funds that originate from sources other than the federal or state government include: loan repayments, interest earnings, and grants or contributions from miscellaneous entities.

In fiscal year 2018, proceeds of approximately \$37 million from the Housing for All Revenue Bond (HRB) became available to VHCB to make awards to eligible housing projects over a three-year period. The 20-year bond, issued by the Vermont Housing Financing Agency, will be repaid by the State of Vermont using PTT revenues. Beginning in fiscal year 2018, and continuing until July 2039, VHCB's annual appropriation of PTT shall be reduced by \$1.5 million to cover a portion of the annual debt service relating to the HRB.

VHCB administers and operates federal grants and programs that complement both the housing and conservation aspects of VHCB's mission. They include: U.S. Department of Housing and Urban Development (HUD) funds for HOME, National Housing Trust Fund, Housing Opportunities for Persons with Aids, Healthy and Lead Safe Homes Program, U.S. Department of Agriculture (USDA) Natural Resources Conservation Service Agricultural Conservation Easement Program, and an AmeriCorps program. The Board has received funding from a number of other programs including

USDA Rural Development and the Northern Border Regional Commission, particularly in support of its Farm and Forest Viability Program.

VHCB's Board meets approximately six times during each year to make awards for affordable housing and conservation projects. The primary indicator of VHCB's activity is represented by its project awards (see Note 13). Actual disbursement of the awards is a secondary indicator of VHCB's activity in a given year, since the actual disbursement of an award may occur over several years, dependent upon the nature of the project and satisfaction of conditions. Disbursement activity is directly related to recipient compliance with applicable grant conditions and is monitored accordingly.

Project award activity is tracked within VHCB's database, which accounts for the details of project commitments, disbursements, and outstanding balances. Awards of resources on hand are recorded in the financial statements when VHCB takes an action that results in the execution of a contract, grant, or loan. Fund Balance – Restricted for Project Awards represents the outstanding balance of project awards not yet disbursed. When the Board awards federal funds or anticipated future resources, these awards are tracked in the same manner as other awards, but not recorded in the financial statements, as they are commitments of resources not on hand such as reimbursable federal grants.

Financial Highlights

Property Transfer Tax

In fiscal year 2019, VHCB received a net amount of \$9,804,840 in Property Transfer Tax (PTT) revenues, a level appropriation with fiscal year 2018. This amount is net of VHCB's share of the HRB debt service payment of \$1.5 million. By statute, VHCB's appropriation in 2019 would have been \$18,914,000. The difference between the statutory level and actual appropriation to VHCB is retained by the State of Vermont General Fund.

The PTT acts as a barometer of the real estate market. The State continues to experience a rising trend in PTT revenues. Relating VHCB's funding to the PTT was, by design, intended to provide corresponding protection against the real estate market pressures on open space and affordable housing. Appropriations of PTT to VHCB have not directly correlated with these increases.

Housing for All Revenue Bond

The HRB is a one-time source of funding for the development of affordable housing. As a result of State of Vermont Act 85, 2017, the HRB was issued by the Vermont Housing Finance Agency in January of 2018. The proceeds of approximately \$37 million were made available for VHCB to fund an increase in rental housing and home ownership opportunities for an initial target of 550-650 units for low and moderate-income Vermonters. The HRB funds are being matched with state, federal, and private sources to leverage an anticipated \$4-\$5 for every \$1 of HRB funds, resulting in up to \$120 million in additional resources for housing development. Annual

debt service for the HRB of \$2.5 million will be covered with annual revenue from the State's Property Transfer Tax over 20 years, ending in 2039. \$1.5 million of the annual debt service payment will come from VHCB's appropriation of Property Transfer Tax. As of June 30, 2019, VHCB had awarded \$29,542,333 or 80% in HRB funds to 29 projects providing 688 new units. The HRB funds are expected to be fully committed midway through fiscal year 2020.

Capital Bond Appropriation

To supplement the reduced PTT revenues, VHCB received a Capital Bond Appropriation in FY2019 of \$5,650,000. Before the State deduction for bond issuance costs, the following amounts were available for designated purposes:

- Housing \$1,800,000
- Conservation and Water Quality \$2,750,000
- Water Quality Improvement Grants and Farm Retirement Projects \$1,100,000

The combined Capital Bond Appropriation and PTT provided total revenues of \$15,454,840, representing 82% of statutory funding, and a net increase from fiscal year 2018 State funding of \$650,000.

Federal Resources

VHCB administers many of the same federal programs as in prior years, though amounts available have varied. A continued trend of increasing federal regulations over grant administration has also put pressure on VHCB by requiring a larger utilization of state resources to assure appropriate program management compliance.

Awards

In fiscal year 2019, the Board approved total awards of \$34,111,060. These awards will assist in developing 560 units of affordable housing; conserving 21 farms consisting of 3,106 acres; protecting 2,031 acres of natural areas and recreational lands, and 1 historic property. In addition, numerous awards have been made to carry out the work of the Farm and Forest Viability Program, Healthy and Lead Safe Housing Program, and the HOPWA Program.

VHCB Operations Budget

Within the operations budget, VHCB manages both the administrative costs associated with carrying out the activities of VHCB, as well as the direct staff and related costs of running several programs. The portion of the operations budget representing administrative expenditures represents approximately 8% of overall organizational expenditures, consistent with prior years. The portion of operating expenditures supported with foundation/federal funds was 42%. Comparison of actual operating expenditures to the budget in fiscal year 2019 resulted in a favorable variance, with costs falling 8% below the approved budget.

Overview of The Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of four components: (1) government-wide financial statements, (2) governmental fund financial statements, (3) notes to financial statements, and (4) required supplementary information.

The government-wide statements present VHCB as aggregated, using the full accrual method of accounting, and an economic resource measurement focus. The fund financial statements present the major funds of VHCB, using the modified accrual method of accounting, and a focus on the current financial resources available.

The two presentations have significant differences. The reader should be aware of these prior to using the information for analysis. The government-wide financial statements will be the most familiar for readers versed in private sector financial reporting. The fund financials are more reflective of how governmental entities maintain their financial records, with a self-balancing fund for each major activity and excluding noncurrent assets and long-term liabilities. Reconciliations are included with the financial statements which explain the differences in presentation between the fund financial statements and the government-wide financial statements.

The following table summarizes the major attributes of the basic financial statements, and highlights the differences between the two presentations:

Financial Statement Attributes:	Government-wide Financial Statements (pages 14-15)	Governmental Funds Statements (pages 16, 18)
Required financial statements:	Statement of Net Position and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances
Presentation:	Aggregated	By major fund
Basis of accounting:	Full accrual	Modified accrual
Measurement focus:	Economic resources focus	Current financial resources focus
Assets reported:	All short-term and long-term assets	- Only current assets expected to be available for the subsequent year (no long-term loans receivable); - No capital assets included
Liabilities reported:	All short-term and long-term liabilities	Only liabilities that come due during the coming year
Type of inflow/outflow information:	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-Wide Financial Statements

VHCB's government-wide financial statements are designed to present an aggregated view of VHCB's operations and financial position in a manner similar to the accounting principles used by most private-sector businesses.

The government-wide statements contain both short-term and long-term information about VHCB's financial position and assist in assessing VHCB's economic condition at the end of each fiscal year. VHCB prepares these statements using the "flow of economic resources" measurement focus and the accrual basis of accounting. This takes into account all financial activity connected with the reported fiscal year including revenues, expenses, transfers, sales or acquisitions of capital assets, and any other activity affecting the financial condition of VHCB.

The government-wide financial statements present two statements:

The Statement of Net Position presents a snapshot of VHCB's assets and liabilities and deferred outflows and deferred inflows, as of year-end, with the difference between assets and deferred outflows, and liabilities and deferred inflows reported as "net position".

The Statement of Activities presents the reported year's financial activity and the reason(s) for the changes in net position included on the Statement of Net Position. All changes in financial activities are recognized as soon as the underlying event(s) giving rise to the changes occur, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will not result in cash flows until future fiscal periods. This statement also presents the relationship between VHCB's major expenditure functions and the associated sources of revenues, as presented on the accrual basis of accounting. The reader should be aware that the expenses reflected in this statement do not include awards disbursed in the form of loans as is demonstrated in the expenditures reported in the fund financial statements. Given that loans are a significant portion of VHCB's activities, VHCB feels that the fund financial statements presentation is a more meaningful a representation of award activity.

Governmental Funds Statements

The fund financial statements are presented to demonstrate the activities of VHCB and compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

This approach represents the "flow of current financial resources" measurement focus and the modified accrual basis of accounting. These statements provide a short-term view of VHCB's finances and exclude noncurrent assets and long-term liabilities. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of current spendable resources available at the end of the fiscal year.

Due to the focus on current financial resources, only the current portion of loans receivable are reported on the Balance Sheet. This is a significant difference from the Statement of Net Position, where all loans are reported. Fund financial statements are utilized by management, funders, and the Board of Directors during the year to account and report upon restricted resources, determine fiscal health, analyze, and plan. Given VHCB functions primarily as a funding agency in carrying out its mission, the governmental funds format provides a clearer representation of its activities, including the funding sources of VHCB awards and whether the awards were disbursed in the form of grants or loans. Note 6 provides an explanation of loans receivable.

Government-Wide Financial Analysis

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	Governmental Activities		Percent Change
	<u>2019</u>	<u>2018</u>	
Current assets	\$ 41,203,450	\$ 48,613,878	-15%
Noncurrent assets	<u>226,373,163</u>	<u>213,809,604</u>	<u>6%</u>
Total assets	<u>\$ 267,576,613</u>	<u>\$ 262,423,482</u>	<u>2%</u>
Current liabilities	\$ 2,017,033	\$ 1,064,455	89%
Noncurrent liabilities	<u>271,695</u>	<u>271,695</u>	<u>0%</u>
Total liabilities	2,288,728	1,336,150	71%
Net position:			
Net investment in capital assets	320,752	306,545	5%
Restricted	<u>264,967,133</u>	<u>260,780,787</u>	<u>2%</u>
Total net position	<u>\$ 265,287,885</u>	<u>\$ 261,087,332</u>	<u>2%</u>

CHANGE IN NET POSITION

	<u>Governmental Activities</u>		<u>Percent Change</u>
	<u>2019</u>	<u>2018</u>	
Revenues:			
Program revenues:			
Operating grants and contributions	\$ 14,329,541	\$ 48,824,358	-71%
General revenues:			
Property transfer tax	9,804,840	9,804,840	0%
Capital bond appropriation	5,640,272	4,935,255	14%
Loan interest income	1,313,091	1,433,350	-8%
Interest income	959,469	399,065	140%
Miscellaneous	16,174	162,555	-90%
Total revenues	<u>32,063,387</u>	<u>65,559,423</u>	-51%
Expenses:			
Conservation - federally funded	5,939,930	3,187,347	86%
Conservation - non-federally funded	9,989,822	7,556,192	32%
Housing - federally funded	1,362,816	2,389,509	-43%
Housing - non-federally funded	8,661,837	6,261,817	38%
Healthy and lead safe homes	928,279	1,027,832	-10%
AmeriCorps	942,677	921,854	2%
Depreciation	37,473	17,871	110%
Total expenses	<u>27,862,834</u>	<u>21,362,422</u>	30%
Change in net position	4,200,553	44,197,001	-90%
Net position - beginning of year	<u>261,087,332</u>	<u>216,890,331</u>	20%
Net position - end of year	<u>\$ 265,287,885</u>	<u>\$ 261,087,332</u>	2%

The analysis of the Statement of Net Position and the Statement of Activities considers the following:

- All reporting is impacted by the status of the Board's commitments and the disbursements thereof. The timing of each project's closing, and single or multiple disbursements is unique, and in many cases crosses fiscal years, and yet those financial transactions cumulatively affect cash balances, loans receivable, restricted net position,

and expenses in a given year. The flow of those transactions is not cyclical, and therefore makes the meaningful comparison of year-end reporting challenging.

- The disbursements of housing awards are often in the form of a loan, and for this presentation, will only impact the Statement of Net Position, and will not be included in expenses reported for housing programs on the Statement of Activities.

Statement of Net Position

At the close of the fiscal year ended June 30, 2019, current assets were lower than the prior fiscal year by 15%. The proceeds held by the Housing Revenue Bond (HRB) Trustee and VHCB are at a much lower balance at the end of fiscal year 2019. This change reflects the activity in the HRB. At June 30, 2019, 80% of the proceeds were committed by the Board, and substantial disbursement of project awards occurred during the fiscal year.

Non-current assets are up by 6%, as loans receivable have increased for housing projects funded with federal, VHCB, and HRB funds.

Total liabilities have increased by 71%, as VHCB's liability to the State of Vermont has increased pending the receipt of federal funds on a project.

Net position has increased by 1.6%, a result of the net increase in loans receivable offset by the decrease in current assets.

Statement of Activities

Revenues - Overall revenues decreased from prior year by 51%. This is mainly due to the reporting of the HRB proceeds in the prior year. Details are noted below:

- Operating grants are lower than the prior year by 71%. Fiscal year 2018 had higher revenues as VHCB reported the full proceeds of the Housing Revenue Bond, an atypical, non-recurring source of revenue for VHCB.
- Capital bond appropriation increased in fiscal year 2019 by approximately \$700,000, or 14%, as the Vermont Legislature chose to increase the Capital bond Housing appropriation.
- Interest income is up 140%, as the HRB funds earn interest until disbursed.

Total expenses show an overall increase of 30% as compared to the prior year. This increase is largely due to timing of project disbursements. To accurately compare housing program expenses the reader should also consider disbursements made in the form of loans, in which case the increased activity equates to the use of the HRB proceeds for housing projects.

Governmental Funds

The following table provides a comparison of VHCB's program functions as presented on the modified accrual basis of accounting. Under this method of accounting, project loan expenditures are included in both housing and healthy and lead safe homes programs, presenting a comprehensive presentation of program activities.

<u>Functions/Programs</u>	<u>2019</u>	<u>% Increase (Decrease)</u>	<u>2018</u>
Conservation - federally funded	\$ 5,939,930	86%	\$ 3,187,347
Conservation - non-federally funded	9,978,392	33%	7,501,673
Housing - federally funded	5,599,202	-1%	5,643,983
Housing - non-federally funded	15,517,688	36%	11,430,513
Healthy and lead safe homes	1,045,580	-4%	1,089,812
AmeriCorps	942,677	2%	921,854
Capital outlay	<u>51,680</u>	<u>-11%</u>	<u>58,150</u>
Total	<u>\$ 39,075,149</u>	<u>31%</u>	<u>\$ 29,833,332</u>

Comparison of programs using the modified accrual basis of accounting includes loan activity and therefore provides a more accurate presentation of actual program activities. The 36% increase in housing – non-federally funded is consistent with the overall increase housing activities resulting from the HRB proceeds being made available.

Requests for Information

This financial report is designed to provide a general overview of Vermont Housing & Conservation Board's finances for all those with an interest in VHCB's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Vermont Housing & Conservation Board
58 East State Street
Montpelier, Vermont 05602

BASIC FINANCIAL STATEMENTS

Vermont Housing & Conservation Board
(A Component Unit of the State of Vermont)
Government-Wide Financial Statements
Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and short-term investments	\$ 169,996
Cash - State accounts	27,876,158
Due from trustee (Note 12)	7,895,738
Due from State of Vermont (Note 5)	3,034,954
Receivables:	
Loans (Note 6)	217,315
Grant reimbursements	1,903,008
Other	45,379
Other assets	<u>60,902</u>
Total Current Assets	41,203,450
Noncurrent Assets:	
Receivables (Note 6):	
Loans, net of allowance	205,500,902
Accrued interest on long-term loans, net of allowance	20,551,509
Capital assets, net of accumulated depreciation	<u>320,752</u>
Total Noncurrent Assets	<u>226,373,163</u>
TOTAL ASSETS	<u>\$ 267,576,613</u>
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	\$ 331,124
Due to State of Vermont (Note 9)	<u>1,685,909</u>
Total Current Liabilities	2,017,033
Noncurrent Liabilities:	
Notes payable (Note 10)	<u>271,695</u>
TOTAL LIABILITIES	2,288,728
NET POSITION	
Net investment in capital assets	320,752
Restricted:	
Restricted for project awards (Note 13)	29,093,220
Restricted for programs	9,875,882
Restricted for loans	<u>225,998,031</u>
TOTAL NET POSITION	<u>265,287,885</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 267,576,613</u>

The accompanying notes are an integral part of these financial statements.

Vermont Housing & Conservation Board
(A Component Unit of the State of Vermont)
Government-Wide Financial Statements
Statement of Activities
For the Year Ended June 30, 2019

	<u>Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Change in Net Position</u>
			<u>Governmental Activities</u>
Governmental Activities:			
Conservation - federally funded	\$ 5,939,930	\$ 5,930,509	\$ (9,421)
Conservation - non-federally funded	9,989,822	1,192,051	(8,797,771)
Housing - federally funded	1,362,816	5,599,012	4,236,196
Housing - non-federally funded	8,661,837	118,517	(8,543,320)
Healthy and lead safe homes	928,279	873,576	(54,703)
AmeriCorps	942,677	615,876	(326,801)
Depreciation	<u>37,473</u>	<u>-</u>	<u>(37,473)</u>
Total Governmental Activities	\$ 27,862,834	\$ 14,329,541	(13,533,293)
General Revenues:			
			9,804,840
			5,640,272
			1,313,091
			959,469
			<u>16,174</u>
Total general revenues			<u>17,733,846</u>
Change in Net Position			4,200,553
Net Position:			
Beginning of year			<u>261,087,332</u>
End of year			<u>\$ 265,287,885</u>

The accompanying notes are an integral part of these financial statements.

Vermont Housing & Conservation Board
(A Component Unit of the State of Vermont)
Fund Financial Statements: Governmental Funds
Balance Sheet
June 30, 2019

	General Fund	Housing for All Revenue Bond Proceeds Fund	Capital Bond Appropriation Fund	HOME Fund	Farm Preservation Program Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Cash and short-term investments	\$ 169,996	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 169,996
Cash - State accounts	6,690,870	18,625,615	-	-	-	2,559,673	27,876,158
Due from trustee (Note 12)	-	7,895,738	-	-	-	-	7,895,738
Due from other funds	301,162	74,468	-	-	-	33,241	408,871
Due from State of Vermont (Note 5)	-	-	3,034,954	-	-	-	3,034,954
Receivables:							
Current portion of long-term loans	217,315	-	-	-	-	-	217,315
Grant reimbursements	-	-	-	34,836	1,515,500	352,672	1,903,008
Other	5,353	-	-	-	-	40,026	45,379
Other assets	60,902	-	-	-	-	-	60,902
TOTAL ASSETS	\$ 7,445,598	\$ 26,595,821	\$ 3,034,954	\$ 34,836	\$ 1,515,500	\$ 2,985,612	\$ 41,612,321
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	\$ 331,124	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 331,124
Due to other funds	107,709	-	-	34,836	-	266,326	408,871
Due to State of Vermont (Note 9)	-	-	-	-	1,515,500	170,409	1,685,909
Total Liabilities	438,833	-	-	34,836	1,515,500	436,735	2,425,904
Deferred Inflows of Resources - Loans (Note 10)	217,315	-	-	-	-	-	217,315
Fund Balances:							
Restricted:							
Restricted for project awards (Note 13)	6,557,534	18,503,969	2,581,088	-	-	1,450,629	29,093,220
Restricted for programs	231,916	8,091,852	453,866	-	-	1,098,248	9,875,882
Total Fund Balances	6,789,450	26,595,821	3,034,954	-	-	2,548,877	38,969,102
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 7,445,598	\$ 26,595,821	\$ 3,034,954	\$ 34,836	\$ 1,515,500	\$ 2,985,612	\$ 41,612,321

The accompanying notes are an integral part of these financial statements.

Vermont Housing & Conservation Board
(A Component Unit of the State of Vermont)
Fund Financial Statements: Governmental Funds
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental
Activities in the Statement of Net Position
June 30, 2019

Governmental fund balances	\$ 38,969,102
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	320,752
Noncurrent portion of loans receivable are not available financial resources and, therefore, are not included in governmental funds.	205,718,217
Accrued interest receivable on loans is not recorded under the modified accrual basis of accounting.	20,551,509
Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported in governmental funds.	<u>(271,695)</u>
Net position of governmental activities	<u>\$ 265,287,885</u>

Vermont Housing & Conservation Board
(A Component Unit of the State of Vermont)
Fund Financial Statements: Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2019

	General Fund	Housing for All Revenue Bond Proceeds Fund	Capital Bond Appropriation Fund	HOME Fund	Farmland Preservation Program Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:							
Property transfer tax	\$ 9,804,840	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,804,840
Capital bond appropriation	-	-	5,640,272	-	-	-	5,640,272
State and Federal grant revenue	100,000	-	-	3,505,486	5,470,500	4,463,263	13,539,249
Loan principal repayments	87,482	-	-	-	-	76,479	163,961
Loan interest	9,098	-	-	-	-	-	9,098
AmeriCorps	-	-	-	-	-	246,221	246,221
Mitigation revenue	-	-	-	-	-	544,068	544,068
Interest income	289,969	652,062	-	-	-	17,438	959,469
Miscellaneous	7,148	-	-	-	-	9,026	16,174
Total Revenues	10,298,537	652,062	5,640,272	3,505,486	5,470,500	5,356,495	30,923,352
Expenditures:							
Program functions:							
Conservation - federally funded	-	-	-	-	5,470,500	469,430	5,939,930
Conservation - non-federally funded	4,309,304	-	3,736,869	-	-	1,932,219	9,978,392
Housing - federally funded	-	-	-	3,505,486	-	2,093,716	5,599,202
Housing - non-federally funded	5,434,636	7,306,693	2,712,366	-	-	63,993	15,517,688
Healthy and lead safe homes	-	-	-	-	-	1,045,580	1,045,580
AmeriCorps	5,500	-	-	-	-	937,177	942,677
Capital outlay	51,680	-	-	-	-	-	51,680
Total Expenditures	9,801,120	7,306,693	6,449,235	3,505,486	5,470,500	6,542,115	39,075,149
Excess (deficiency) of revenues over expenditures	497,417	(6,654,631)	(808,963)	-	-	(1,185,620)	(8,151,797)
Other Financing Sources (Uses):							
Transfers to support programs	(1,153,071)	-	-	-	-	1,153,071	-
Total Other Financing Sources (Uses)	(1,153,071)	-	-	-	-	1,153,071	-
Change in fund balance	(655,654)	(6,654,631)	(808,963)	-	-	(32,549)	(8,151,797)
Fund Balance, at Beginning of Year	7,445,104	33,250,452	3,843,917	-	-	2,581,426	47,120,899
Fund Balance, at End of Year	\$ 6,789,450	\$ 26,595,821	\$ 3,034,954	\$ -	\$ -	\$ 2,548,877	\$ 38,969,102

The accompanying notes are an integral part of these financial statements.

Vermont Housing & Conservation Board
(A Component Unit of the State of Vermont)
Fund Financial Statements: Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019

Change in fund balances - governmental funds \$ (8,151,797)

Governmental funds report annual capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	51,680
Depreciation	(37,473)

Governmental funds report loans disbursed and lending activities as expenditures. Under the accrual basis of accounting, these transactions are not reported on the Statement of Activities. 12,703,806

Governmental funds report loan principal repayments as revenue when received. Under the accrual basis of accounting, these receipts are not reported on the Statement of Activities. (163,961)

Governmental funds do not report accrued interest income from loans under the modified accrual basis of accounting. 1,303,993

The change in the allowance for uncollectible loans and forgiveness is not reflected in governmental funds, but is included in government-wide expenses. (1,505,695)

Change in net position - governmental activities \$ 4,200,553

Vermont Housing & Conservation Board
(A Component Unit of the State of Vermont)
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting policies of Vermont Housing & Conservation Board (VHCB) conform to Generally Accepted Accounting Principles (GAAP) as applicable to governmental units. The following is a summary of significant policies:

A. Reporting Entity

VHCB was established by the Vermont Legislature in May of 1987 with the dual goals of "creating affordable housing for Vermonters, and conserving and protecting Vermont's agricultural land, forestland, historic properties, important natural areas, and recreational lands."

VHCB's Board makes grants and loans to nonprofit organizations including land trusts, conservation groups, housing cooperatives, and to municipalities and qualifying state agencies. The majority of state funding received by VHCB is a dedicated portion of the Vermont Property Transfer Tax (PTT). The Vermont Legislature approves the appropriations of the PTT to VHCB annually.

The eleven-member VHCB Board consists of seven citizen members and four ex-officio members who are heads of designated state agencies. Six members, including three ex-officio members, are appointed by the Governor of Vermont. The remaining members, except for the Director of the Vermont Housing Finance Agency, are appointed by the Vermont Legislature.

The criteria of oversight responsibility, special financing relationships, and scope of public service are used in determining the agencies or entities which comprise VHCB for financial reporting purposes. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, and ability to significantly influence operations and accountability for fiscal matters. Given that certain of these criteria apply to the relationship between VHCB and the State of Vermont for the State's financial reporting purposes, VHCB is considered a component unit of the State. These financial statements present only VHCB as a component unit of the State of Vermont.

B. Basic Financial Statements

The basic financial statements include both government-wide and fund financial statements. This financial reporting model focuses on VHCB as a whole (in the government-wide financial statements) and on major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize primary activities of VHCB as governmental. The different statements represent two different measurement focuses and use different methods of accounting.

A reconciliation is included which explains the differences in presentation between the fund financial statements and the government-wide statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

This government-wide focus on all economic resources applied on an accrual basis demonstrates the sustainability of VHCB as an entity by reporting the aggregate financial position and the change in financial position resulting from the activities of the fiscal period. The government-wide Statement of Activities reflects both the gross and net costs by functional category which are otherwise supported by general government revenues. The Statement of Activities reduces gross expenses by related program revenues and operating grants that are specifically restricted for the relative function. The net cost is funded by general revenues (property transfer tax, capital bond appropriation, loan interest income, interest income, and miscellaneous). Programs and grants are charged their share of overhead and administrative costs based on VHCB's cost allocation and indirect rate plan.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. All other revenue items are considered to be measurable and available only when cash is received by VHCB. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

This presentation assists in demonstrating legal compliance, and the source and use of liquid resources. The emphasis of the fund financial statements is on the major funds in the governmental category. Nonmajor funds are summarized into a single column.

VHCB reports the following major governmental funds:

- The **General Fund** is the primary operating fund of VHCB. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund consists of the Operating and Trust Funds of VHCB. The Trust Fund includes revenues from the Vermont Property

Transfer Tax and repayments on loans. Expenditures from the Trust Fund include grants, loans, miscellaneous direct program costs, and transfers to the Operating Fund for operations funding.

- The **Housing for All Revenue Bond Proceeds Fund** accounts for the proceeds and uses of the Housing Revenue Bond issued by the Vermont Housing Finance Agency on behalf of VHCBS and as directed by recent State law. The proceeds are being used to fund an increase in rental housing and home ownership opportunities for 550-650 low- and moderate-income Vermonters over a two to three-year period from 2018 - 2020.
- The **Capital Bond Appropriation Fund** accounts for the State Capital Bond Appropriations provided to VHCBS for utilization in housing and conservation programs. The final amount VHCBS receives is net of allocated bond issuance fees. Bond funds are restricted to capital purchases, as well as being subject to a number of other regulations that direct the utilization of these funds.
- The **HOME Fund** – VHCBS, a subrecipient through the State of Vermont, administers U.S. Department of Housing and Urban Development (HUD) HOME Program funds. The purpose of this program is to create affordable housing, with the focus of VHCBS's program being the acquisition and rehabilitation of multi-family, lower income rental units and mobile home parks. VHCBS awards HOME funds to qualifying organizations for development of specific projects. VHCBS currently administers several funding years of the HOME Program.
- The **Farmland Preservation Program Fund** – VHCBS has received federal awards from the Natural Resources Conservation Service (NRCS) Agricultural Conservation Easement Program for use in purchasing conservation easements on farmland.

D. Cash and Short-Term Investments

Deposits with financial institutions consist of demand deposits. Cash reported in the General Fund is advanced as needed to cover expenses of other funds and is subsequently reimbursed.

E. Cash – State Accounts

The majority of VHCBS's funds are maintained within the State of Vermont Treasury. Interest earned by the funds within the State Treasury is transferred to VHCBS accounts.

F. Loans

VHCBS awards loans to nonprofits and various other eligible entities to assist in project development. In the governmental fund financial statements, loans are recorded as expenditures in the fund from which the sources were disbursed. Loans receivable that carry future restrictions on repayment proceeds are recorded in the fund from which the resources were derived; all others are recorded in the General Fund. Due to the current

resource measurement focus of the governmental fund statements, only current loans receivable are reported on the governmental funds Balance Sheet.

G. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due from/to other funds” (i.e., the current portion of interfund loans).

H. Capital Assets

Capital assets, which include leasehold improvements and furniture, equipment, and software, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as constructed.

Capital assets are depreciated using the straight-line method over the estimated useful lives of the respective assets.

I. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of fund balance by VHCB that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on fund balance, similar to liabilities. Deferred inflows of resources represent the current portion of long-term loans expected to be received in the next fiscal year.

J. Long-Term Liabilities

In the government-wide financial statements, long-term debt is reported as a liability in the Statement of Net Position.

K. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

Fund Balance generally represents the difference between current assets/deferred outflows and current liabilities/deferred inflows. VHCB reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and, therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for use in future periods.

Net Position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

L. Use of Estimates

The preparation of basic financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

An annual budget of operating expenditures, inclusive of all of funds, is prepared by VHCB staff, reviewed by the Finance Committee, and approved by the Board of Directors.

VHCB develops internal targets for utilization of total available resources which are used to award funding to housing and conservation projects. Decisions regarding specific project commitments are determined by the Board of Directors based on the quality of applications received, evaluating potential for leverage, community need, eligibility criteria, availability of funds, and, as directed by statute, consideration of timely response to unpredictable circumstances or unique opportunity.

B. Budget/GAAP Reconciliation

The budgetary data presented as supplementary information is intended to be consistent with the operating budget approved by VHCB's Board of Directors and is created and accounted for on the modified-accrual basis of accounting.

3. Cash and Short-Term Investments and Cash – State Accounts

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, VHCB's deposits may not be returned to it. VHCB does not have a deposit policy for custodial credit risk. The majority of VHCB's deposits are maintained within the State of Vermont's Treasury. As of June 30, 2019, none of VHCB's bank balance was exposed to custodial credit risk as uninsured or uncollateralized.

4. Interfund Accounts

A. Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the General Fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is a summary of June 30, 2019 balances in interfund receivable and payable accounts:

<u>Fund</u>	Due From Other Funds	Due To Other Funds
General Fund	\$ 301,162	\$ 107,709
Housing for All Revenue Bond Proceeds Fund	74,468	-
HOME Fund	-	34,836
Nonmajor Governmental Funds	<u>33,241</u>	<u>266,326</u>
Total	<u>\$ 408,871</u>	<u>\$ 408,871</u>

B. Transfers

In fiscal year 2019, VHCB transferred \$1,153,071 from the General Fund to other governmental funds to support program costs not covered by State, Federal grants, or other revenues.

5. Due From State of Vermont

At June 30, 2019, \$3,034,954 was due from the State of Vermont for balances outstanding from fiscal years 2017, 2018, and 2019 Capital Bond Appropriations.

6. Long-Term Loans Receivable

VHCB's loans receivable portfolio is comprised of loans made for projects under the affordable housing, healthy and lead safe homes program, and other programs, including down payment assistance and short-term bridge financing. Loan types and maturities are as follows:

<u>Fiscal Year</u>	<u>Loan Type</u>		<u>Total</u>
	<u>Housing Projects</u>	<u>Healthy and Lead Safe Homes Program</u>	
2020	\$ 217,315	\$ -	\$ 217,315
2021	444,582	-	444,582
2022	404,811	-	404,811
2023	503,881	-	503,881
2024	600,350	-	600,350
Thereafter	<u>205,951,552</u>	<u>8,385,062</u>	<u>214,336,614</u>
	<u>\$ 208,122,491</u>	<u>\$ 8,385,062</u>	216,507,553
Less: allowance			<u>(10,789,336)</u>
Total loans, net of allowance			<u>\$ 205,718,217</u>

VHCB makes loans using various federal and non-federal funds, dependent upon project eligibility and the entire project funding structure. Loans made from federal sources make up 32%, or \$69 million, of VHCB's loan portfolio. Repayments of loans made with federal resources are typically restricted as directed by federal program regulations.

Housing Project Loans

The majority of housing loans are structured as deferred loans with terms of 0% interest, and a balloon payment due upon maturity; typically, 30-40 years from the date of the note. Older loans, some still in the portfolio, included terms that may require quarterly payments of principal and/or interest, and interest rates varying from 0% - 11.58%. Loans are due upon sale or transfer of property.

VHCB makes loans consistent with best practices for new development as reviewed by legal, financial counsel, external evaluators, and others. The purpose of VHCB loans is to secure permanent benefits of affordability for Vermonters below median income in the State of Vermont while encouraging as much leverage from other sources, including conventional loans, as a project can support while meeting the public purpose of the loan.

The largest pool of deferred loans is made in conjunction with the Low Income Housing Tax Credit program (LIHTC). VHCB has an obligation and legislative directive to conduct its mission in a manner that achieves permanent affordability, serves very low-income Vermonters, and protects residents from displacement. VHCB collects deferred loans upon maturity unless doing so will result in the displacement of residents or prevent the continued use of the property as affordable housing.

VHCB evaluates such loans on a case-by-case basis if a request is made for continued deferral or refinancing based upon a project's individual circumstances. VHCB may, depending upon those circumstances, agree to extend, refinance, convert to a secured grant or, in some rare cases, forgive debt in order to continue affordability beyond the LIHTC compliance period and/or support needed investment in the property.

Healthy and Lead Safe Homes Program Loans

The Healthy and Lead Safe Homes Program (HLSHP) provides loans as part of the project award package. Partial loan forgiveness provisions may be included within the note to incentivize long-term lead safety compliance practices, good property maintenance, and continued occupancy by low-income tenants. Forgiveness provisions vary, including up to 50% forgiveness for investor-owned and private homeowners, subject to certain requirements. HLSHP loans are either deferred loans (balloon payment at maturity) or due upon sale or transfer of property.

As required by accounting standards, loans receivable appear differently within the two types of financial statement presentations.

The government-wide Statement of Net Position has an economic focus of measurement and uses the accrual basis of accounting method. As a result, within the current and noncurrent assets sections, all loans receivable have been consolidated. No distinction is made for loans with federal or other restrictions. An allowance for uncollectible loans is netted against both the loans receivable and accrued interest receivable.

The governmental fund Balance Sheet presents the current financial resources measurement focus and uses the modified accrual basis of accounting. Assets and liabilities presented include only those loans receivable that are current.

For a complete understanding of VHCB’s loans receivable, one should utilize both financial statements. The two reporting presentations are illustrated below:

	Government-Wide Statement of <u>Net Position</u>	Governmental Funds - <u>Balance Sheet</u>
Current portion loans receivable	\$ 217,315	\$ 217,315
Long-term loans receivable, net of allowance	205,500,902	-
Accrued interest on long-term loans, net of allowance	<u>20,551,509</u>	<u>-</u>
	<u>\$ 226,269,726</u>	<u>\$ 217,315</u>

In the government-wide statements, loans receivable have been reduced by an allowance of \$10,789,336 to reflect the estimated amount of loans that will not be collected either because of forgiveness, conversion, or due to doubtful accounts. VHCB determines this allowance using a combination of historical experience by loan type and management’s analysis of the current portfolio.

VHCB calculates accrued interest on long-term loans based on applicable rates and terms of interest. At June 30, 2019, accrued interest receivable was \$21,407,823. VHCB has estimated an allowance for uncollectible accrued interest receivable of \$856,314, based on historical experience of loans and management’s analysis of the current portfolio. The net accrued interest receivable is \$20,551,509.

7. Grant Reimbursements Receivable

Grant reimbursements receivable represents grant funding for which allowable costs have been incurred and are awaiting reimbursement or requisition.

8. Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>July 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2019</u>
Governmental Activities:				
Capital assets, being depreciated:				
Leasehold improvements	\$ 225,146	\$ -	\$ -	\$ 225,146
Furniture, equipment, and software	<u>298,985</u>	<u>51,680</u>	<u>(22,980)</u>	<u>327,685</u>
Total capital assets, being depreciated	\$ <u>524,131</u>	\$ <u>51,680</u>	\$ <u>(22,980)</u>	\$ <u>552,831</u>
Less accumulated depreciation for:				
Leasehold improvements	(145,660)	(15,010)	-	(160,670)
Furniture, equipment, and software	<u>(71,926)</u>	<u>(22,463)</u>	<u>22,980</u>	<u>(71,409)</u>
Total accumulated depreciation	<u>(217,586)</u>	<u>(37,473)</u>	<u>22,980</u>	<u>(232,079)</u>
Governmental activities capital assets, net	\$ <u>306,545</u>	\$ <u>14,207</u>	\$ <u>-</u>	\$ <u>320,752</u>

9. Due to State of Vermont

Amounts due to State of Vermont represent amounts owed for cash utilized in advance of federal grant reimbursement.

10. Notes Payable

VHCB has two outstanding notes payable to the Vermont Housing Finance Agency (VHFA) totaling \$271,695. These funds were loaned to VHCB to supplement the Healthy and Lead Safe Homes Program and were used to make loans to program recipients. Repayment of program recipient loans to VHCB is triggered by transfer of property. The two notes are in the amounts of \$195,827 and \$75,868, and require repayment to VHFA beginning January 2021 and April 2038, respectively, as corresponding program recipient repayments are received.

11. Governmental Funds - Fund Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

VHCB has implemented GASB Statement No. 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances can be reported under GASB 54:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of VHCB's highest level of decision-making authority.

Assigned - Represents amounts that are constrained by VHCB's intent to use these resources for a specific purpose. This fund balance classification includes encumbrances that have been established for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period and any surplus set aside to be used in the subsequent year's budget.

Unassigned - Represents amounts that are available to be spent in future periods.

12. Housing for All Revenue Bond

The Housing for All Revenue Bond (HRB) is a new source of funding for the development of affordable housing. Pursuant to State of Vermont Act No. 85, 2017, the HRB was issued by the Vermont Housing Finance Agency (VHFA) in January of 2018 and resulted in proceeds of approximately \$37 million being made available for VHCB to fund an increase in rental housing and home ownership opportunities. The net proceeds from the issuance of the revenue bonds were deposited in a trust managed by VHFA on behalf of VHCB. At June 30, 2019, the balance in the trust was \$7,895,738. As VHCB awards HRB funds to projects, VHCB submits to VHFA requisitions for drawing down on the HRB funds.

It is anticipated that the HRB funds will result in 550-650 low- and moderate-income new units for Vermonters over the next two to three years. Annual debt service for the bond of \$2.5 million will be covered with annual revenue from the State's Property Transfer Tax over 20 years, ending in 2039. \$1.5 million of the annual debt service payment will reduce VHCB's appropriation of Property Transfer Tax. As of June 30, 2019, VHCB had awarded \$29,542,333 in HRB funds to 29 projects for 688 units. The HRB funds are expected to be fully committed by midway through fiscal year 2020.

13. Project Awards

The VHCB Board meets approximately six times during the year to make awards. These awards may be funded with current or anticipated resources. VHCB policy drives the structure of all awards. The awards are subject to external funding restrictions and carry VHCB imposed grant or loan conditions. In addition to Board activity, designated VHCB staff may make small project awards. Project award activity is individually tracked. This tracking includes recording the initial award, disbursements against the award, and outstanding award balances. Project award activity is presented in the following tables:

A. Restricted for Project Awards

This represents the outstanding balances of project awards made using current resources on hand, such as Trust, Housing Revenue for All Bond, Capital Bond Appropriation, or Mitigation funds.

	Balance July 1, <u>2018</u>	New <u>Commitments</u>	Net <u>Disbursements</u>	Decommitment of Prior Year <u>Commitments</u>	Reallocation Among <u>Funds</u>	Balance June 30, <u>2019</u>
Trust Funds	\$ 7,246,868	\$ 3,992,668	\$ (7,213,061)	\$ (499,457)	\$ 3,030,516	\$ 6,557,534
Housing for All Revenue Bond	13,916,036	12,551,435	(7,306,693)	(814,043)	157,234	18,503,969
Capital Bond Appropriation Funds	3,504,279	983,877	(6,449,235)	(5,000)	4,547,167	2,581,088
MacArthur Foundation	4,382	-	(4,382)	-	-	-
Act 250 Mitigation Funds	205,687	110,000	(331,623)	(701)	315,909	299,272
Housing Mitigation	17,743	-	-	(17,155)	8,656	9,244
Lead Loan Repayment Fund	-	29,674	-	-	-	29,674
Farm Viability Program	<u>1,214,982</u>	<u>1,009,825</u>	<u>(1,087,302)</u>	<u>-</u>	<u>(25,066)</u>	<u>1,112,439</u>
Total	<u>\$ 26,109,977</u>	<u>\$ 18,677,479</u>	<u>\$ (22,392,296)</u>	<u>\$ (1,336,356)</u>	<u>\$ 8,034,416</u>	<u>\$ 29,093,220</u>

B. Awards of Anticipated Funds

These are project awards in which the Board obligated either federal funds for which VHCB has authority to commit or anticipated future appropriations. In accordance with accounting standards, these outstanding award balances are not recorded on the financial statements until funding sources are received or disbursement occurs.

	Balance July 1, <u>2018</u>	New <u>Commitments</u>	Net <u>Disbursements</u>	Decommitment of Prior Year <u>Commitments</u>	Reallocation Among <u>Funds</u>	Balance June 30, <u>2019</u>
Trust Funds	\$ 3,852,717	\$ 6,977,678	\$ -	\$ -	\$ (7,548,979)	\$ 3,281,416
Capital Bond Appropriation Funds	3,842,834	140,264	-	-	(984,572)	2,998,526
Conservation Legacy Appropriation		-	-	-	450,000	450,000
HOME	5,560,004	1,555,406	(3,249,794)	-	-	3,865,616
HOPWA 8	1,258,818	-	(535,183)	-	-	723,635
USDA RD Housing Preservation	70,000	-	(70,000)	-	-	-
National Housing Trust Fund	4,675,820	3,245,872	(1,207,052)	-	-	6,714,640
Lead Paint Hazard Reduction	421,799	367,528	(578,297)	(11,398)	-	199,632
High Meadows Land Bank	275,000	-	-	-	-	275,000
Farm Viability Program	551,737	221,333	(405,184)	(2,500)	25,065	390,451
NRCS	4,994,700	2,925,500	(5,470,500)	(60,000)	25,800	2,415,500
Housing Mitigation	75,647	-	-	-	(1,730)	73,917
Total	\$ <u>25,579,076</u>	\$ <u>15,433,581</u>	\$ <u>(11,516,010)</u>	\$ <u>(73,898)</u>	\$ <u>(8,034,416)</u>	\$ <u>21,388,333</u>

14. Retirement Plan

VHCB participates in a defined contribution retirement plan. The annual contribution, in the amount of \$237,213 for fiscal year 2019, is based on 10% of the salaries paid on a cash basis to eligible, participating employees during the year. An employee becomes a participant in the plan and eligible for contribution by working a minimum of 1,000 hours in the plan year. There are no “years of service” or “minimum age” requirements for eligibility. Individuals employed before July 1, 1991 vested at 25% per year beginning at the time of employment and became fully vested after four years. Individuals employed after July 1, 1991 vest at 20% per year beginning with the second year and are fully vested after six years.

Employees are eligible to participate in the State of Vermont's deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The plan, available to all employees, permits them to defer a portion of their taxable salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or an unforeseeable emergency.

15. Operating Lease

VHCB entered into a 15-year lease for its office space with the Vermont Economic Development Authority commencing July 1, 2008. The base annual rent in the final five years is \$114,944. As additional rent, VHCB shall pay its pro-rata share of annual building operating expenses (currently \$98,980 per year). Future minimum lease payments are as follows:

<u>Fiscal</u> <u>Year</u>	<u>Amount</u>
2020	\$ 213,924
2021	213,924
2022	213,924
2023	<u>213,924</u>
Present Value of Minimum Lease Payments	<u>\$ 855,696</u>

16. Commitments and Contingencies

A. Outstanding Legal Issues

There are no pending legal issues in which VHCB is involved.

B. Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although VHCB expects such amounts, if any, to be immaterial.

SUPPLEMENTARY INFORMATION

Vermont Housing & Conservation Board
(A Component Unit of the State of Vermont)
All Funds – Operating Expenditures – Budget and Actual
For the Year Ended June 30, 2019

	Original and Final <u>Budget</u>	Budgetary Basis Actual <u>Amounts</u>	Variance with Final Budget Positive <u>(Negative)</u>
Operating Expenditures:			
Salaries and benefits	\$ 3,739,369	\$ 3,503,428	\$ 235,941
Other:			
Consulting	81,775	38,386	43,389
Board	25,935	17,555	8,380
Audit	25,500	25,500	-
Advertising	5,000	1,843	3,157
Conferences, registrations, training	24,445	13,795	10,650
Dues and subscriptions	8,771	8,629	142
Insurance	3,144	3,272	(128)
Legal	9,400	888	8,512
Meetings	4,900	4,863	37
Miscellaneous	750	240	510
Occupancy	238,785	232,965	5,820
Office supplies	12,500	8,295	4,205
Postage and mailings	5,500	4,088	1,412
Printing and developing	3,250	1,092	2,158
Repairs and maintenance	20,808	11,161	9,647
Technology	117,573	111,510	6,063
Telephone	14,500	17,808	(3,308)
Travel	68,170	46,298	21,872
Expendable furniture and fixtures	7,500	4,663	2,837
Capital outlay	18,700	13,385	5,315
Total Operating Expenditures	<u>\$ 4,436,275</u>	4,069,664	<u>\$ 366,611</u>

Reconciliation to Total Expenditures:

Less: operating expenditures charged to restricted funds	(1,692,707)
Add: other authorized expenditures:	
General Fund grant, loan, and direct program expenses	7,385,688
Information technology capital outlay	38,475
Total Expenditures - General Fund	<u>\$ 9,801,120</u>

**INDEPENDENT AUDITORS' REPORTS
PURSUANT TO GOVERNMENTAL AUDITING
STANDARDS AND THE UNIFORM GUIDANCE**

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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with *Government
Auditing Standards***

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Vermont Housing & Conservation Board

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Vermont Housing & Conservation Board (VHCB), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise VHCB's basic financial statements, and have issued our report thereon dated October 15, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered VHCB's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of VHCB's internal control. Accordingly, we do not express an opinion on the effectiveness of VHCB's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a

deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

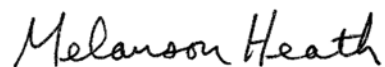
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether VHCB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



October 15, 2019

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Vermont Housing & Conservation Board

Report on Compliance for Each Major Federal Program

We have audited Vermont Housing & Conservation Board's (VHCB) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of VHCB's major federal programs for the year ended June 30, 2019. VHCB's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of VHCB's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain

reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about VHCB's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of VHCB's compliance.

Opinion on Each Major Federal Program

In our opinion, VHCB complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of VHCB is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered VHCB's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of VHCB's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

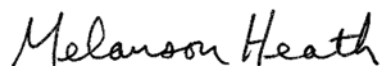
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did

not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Vermont Housing & Conservation Board as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise VHCB's basic financial statements. We issued our report thereon dated October 15, 2019 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



October 15, 2019

Vermont Housing & Conservation Board
(A Component Unit of the State of Vermont)
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

<u>Federal Agency</u>						
<u>Cluster</u>						
<u>Federal Office</u>						
Pass through Agency	Grant	Program or	Pass through	Federal	Amount	Federal
Program Title	<u>Number</u>	<u>Amount</u>	<u>Identifying</u>	<u>CFDA</u>	<u>Provided to</u>	<u>Expenditures</u>
			<u>Number</u>	<u>Number</u>	<u>Subrecipients</u>	
<u>U.S. Department of Agriculture</u>						
<u>Agricultural Conservation Easement Program</u>						
<u>Natural Resources Conservation Service</u>						
Agricultural Conservation Easement Program	5416441601J85	\$ 4,687,000	NA	10.931	\$ -	\$ 977,500
Agricultural Conservation Easement Program	5516441601KC0	1,621,958	NA	10.931	-	684,000
Agricultural Conservation Easement Program	5416441701NFY	5,132,500	NA	10.931	3,094,000	3,094,000
Agricultural Conservation Easement Program	5516441701NHT	1,905,000	NA	10.931	715,000	715,000
Total Agricultural Conservation Easement Program					3,809,000	5,470,500
<u>Rural Housing Preservation Grant</u>						
<u>Rural Development</u>						
Rural Housing Preservation Grant	5-003-003031198	70,000	NA	10.433	-	70,000
<u>Rural Business - Cooperative Service</u>						
Rural Business Development Grant	53-012-030311984	96,700	NA	10.351	-	64,277
Rural Business Development Grant	53-012-030311984	20,000	NA	10.351	-	16,275
Rural Business Development Grant	53-012-030311984	89,252	NA	10.351	-	70,474
Total Rural Business Development Grant					-	151,026
<u>National Institute of Food and Agriculture</u>						
Beginning Farmer and Rancher Development Program	2017-70017-26839	546,386	NA	10.311	95,917	271,293
Total U.S. Department of Agriculture					3,904,917	5,962,819
<u>U.S. Department of Housing and Urban Development</u>						
<u>Home Investment Partnerships Program</u>						
<u>Office of Community Planning and Development</u>						
Passed Through the Vermont Agency of Commerce and Community Development:						
Home Investment Partnerships Program	M15SG500100	2,701,950	07110-2015 HOME	14.239	-	2,915
Home Investment Partnerships Program	M16SG500100	2,721,060	07110-2016 HOME	14.239	-	1,027,803
Home Investment Partnerships Program	M17SG500100	2,715,274	07110-2017 HOME	14.239	-	1,539,848
Home Investment Partnerships Program	M18SG500100	2,707,324	07110-2018 HOME	14.239	-	679,228
Home Investment Partnerships Program	M18SG500100	255,692	07110-2018 HOME	14.239	-	255,692
Total Home Investment Partnerships Program					-	3,505,486

(continued)

(continued)

<u>Lead-Based Paint Hazard Control in Privately-Owned Housing</u>							
<u>Office of Health Homes and Lead Hazard Control</u>							
Lead-Based Paint Hazard Control in Privately-Owned Housing	VTLHB0608-15	3,239,398	NA	14.900	-	875,557	
<u>Housing Opportunities for Persons with AIDS</u>							
Housing Opportunities for Persons with AIDS	VT-H17-0028-00	1,433,508	NA	14.241	535,184	559,720	
<u>Housing Trust Fund</u>							
Housing Trust Fund	F16-SG500100	3,000,000	NA	14.275	-	803,017	
Housing Trust Fund	F17-SG500100	3,000,000	NA	14.275	-	619,174	
Housing Trust Fund	F18-SG500100	3,000,000	NA	14.275	-	41,606	
Total Housing Trust Fund					-	1,463,797	
Total U.S. Department of Housing and Urban Development					535,184	6,404,560	
<u>Northern Border Regional Development</u>							
Northern Border Regional Development	NBRC-16-G-VT-03	164,588	NA	90.601	-	37,688	
Total Northern Border Regional Development					-	37,688	
<u>Corporation for National and Community Service</u>							
<u>AmeriCorps</u>							
Passed Through the Vermont Agency for Human Services:							
AmeriCorps	03400-15ACH-VHCB-FY17	368,669	03400-15ACH-VHCB-FY18	94.006	-	76,370	
AmeriCorps	03400-15ACH-VHCB-FY18	393,588	03400-VHCB-18ESH-FY19	94.006	-	293,285	
Total AmeriCorps					-	369,655	
Total Corporation for National and Community Service					-	369,655	
Total Federal Expenditures					\$ 4,440,101	\$ 12,774,722	

The accompanying notes are an integral part of this schedule.

Vermont Housing & Conservation Board
(A Component Unit of the State of Vermont)
Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Vermont Housing & Conservation Board under programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of VHCB, it is not intended to and does not present the financial position, changes in net position, or cash flows of VHCB.

2. Summary of Significant Accounting Policies

- Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement.

- VHCB has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Vermont Housing & Conservation Board
(A Component Unit of the State of Vermont)
Schedule of Findings and Questioned Costs

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? ___ yes no
- Significant deficiencies identified? ___ yes none reported

Noncompliance material to financial statements noted? ___ yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? ___ yes no
- Significant deficiencies identified? ___ yes none reported

Type of auditors' report issued on compliance for major programs:

Agricultural Conservation Easement Program	Unmodified
AmeriCorps	Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ___ yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.931 94.006	Agricultural Conservation Easement Program AmeriCorps

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes ___ no

Section II - Financial Statement Findings

None.

Section III - Federal Awards Findings and Questioned Costs

None.

Section IV - Schedule of Prior Year Findings

There were no findings in the prior year.