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

Financial Statements and
Required Supplementary Information

June 30, 2017

(With Independent Auditor's Report Thereon)

CohnReznick
Accounting • Tax • Advisory

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

Table of Contents

Independent Auditor's Report

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

We have audited the accompanying financial statements of Vermont Housing Finance Agency (the Agency) as of and for the year ended June 30, 2017, 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 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 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency, as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 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 30, 2017 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 30, 2017

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, 2017. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole.

Overview of the Agency

The Agency was created in 1974 by an Act of the General Assembly of the State of Vermont. The purpose of the Agency is to promote the expansion of the supply of funds available for mortgages on residential housing and to encourage an adequate supply of safe and decent housing at reasonable costs. The Agency is authorized to issue bonds and other obligations to fulfill its corporate purposes. Obligations of the Agency do not constitute debt of the State of Vermont and are payable solely from the revenues or assets of the Agency.

The majority of the Agency's funding has been provided from the proceeds of sales of tax-exempt and taxable bonds and notes, and advances from lending institutions. Since September 1974, the Agency has issued approximately $3.5 billion of bonds and notes, of which $420.4 million was outstanding as of June 30, 2017, to finance its various programs. The proceeds of the debt have been or will be used to make mortgage loans to sponsors of Multi-Family residential housing units for persons and families of low and moderate income in the State, to purchase mortgage backed securities (MBS) or mortgage loans on Single Family residential housing units for persons and families of low and moderate income in the State, and to make loans to finance Multi-Family housing developments. The bonds are secured pursuant to the terms of the resolutions under which they were issued.

Overview of the Financial Statements

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

Summary of Net Position

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

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

The following table summarizes the Net Position of the Agency as of June 30, 2017 with comparative data from the prior fiscal year (in thousands):

	2017	2016	Percentage change
Assets:			
Cash and investments	$ 66,217	73,894	(10.4)%
Loans receivable, net	265,783	289,799	(8.3)
Mortgage backed securities	178,462	173,485	2.9
Other assets	5,193	6,388	(18.7)
Total assets	515,655	543,566	(5.1)
Deferred Outflows of Resources:			
Interest rate swap agreements	1,583	3,375	(53.1)
Liabilities:			
Bond and notes payable	420,461	447,007	(5.9)
Other liabilities	8,778	11,100	(20.9)
Total liabilities	429,239	458,107	(6.3)
Net position:			
Invested in capital assets	688	632	8.9
Restricted for bond resolutions	78,816	82,278	(4.2)
Restricted for special purpose loans	2,193	592	270.4
Unrestricted	6,302	5,332	18.2
Total net position	$ 87,999	88,834	(0.9)%

Total assets decreased by $27.91 million for the fiscal year ended June 30, 2017 when compared to the year ended June 30, 2016, primarily as a result of:

- Overall cash and investments decreased by $7.68 million or 10.4% from June 30, 2016. The decrease is largely related to timing issues. Outstanding bonds were called using excess cash resulting from prepayments and reserve fund drawdowns. Offsetting the bond calls were the collection of prepayments for the next scheduled debt service.

Mortgage loans receivable decreased a net of $24.02 million or 8.3% which can be summarized as follows:

- Total loan originations in the fiscal year were $120.12 million, vs. $95.59 million for the same twelve month period last fiscal year.

- The multi-family portfolio change includes $42.60 million in loan originations and $46.02 million in payoffs.
- The single family portfolio change includes $77.52 million in loan originations $41.89 million in payoffs and $1.54 million in loans transferred to REO. The single family portfolio of whole loans are not being replaced due to the transition to the MBS strategy.
- The single family loan production breaks down as follows: $44.71 million using the To Be-Announced (TBA) program (277 loans), $31.35 million using Mortgage Backed Securities (203 loans), and $1.47 million using the Down Payment Assistance program (311 loans).
- In August, the Agency closed its second loan using a new program with the Federal Financing Bank (FFB). That loan represents a $2 million net increase in the multi-family whole loan portfolio. A third FFB loan was closed in the 2nd quarter, adding a net $3.7 million to the multi-family permanent loan portfolio. A fourth FFB loan was closed in the 3rd quarter, adding a net $588 thousand to the multi-family permanent loan portfolio.
- The amount of loans transferred to REO decreased by $662 thousand for the fiscal year end June 30, 2017 compared to the same fiscal year end period last year. The value of the REO portfolio decreased by $187 thousand for the fiscal year ended June 30, 2017.
- The net decrease in loans receivable is partially offset by the increase in mortgage backed securities of $4.98 million.

The following table summarizes the change in net mortgage loans receivable for the years ended June 30, 2017 and 2016 (dollars in thousands):

	2017	2016
Beginning balance	$ 289,799	309,976
Whole loan originations	42,598	38,882
Down Payment Assistance loans	1,468	475
Principal collections	(67,980)	(57,507)
Loans transferred to REO status	(1,538)	(2,200)
Loan loss provision	1,436	173
Ending balance	$ 265,783	289,799

The following table summarizes the change in mortgage backed securities for the year ended June 30, 2017 (in thousands):

	2017
Beginning balance	$ 173,485
MBS purchases	31,346
MBS principal paydowns	(19,943)
TBA purchases	44,707
TBA sold	(45,761)
Gain on TBA sold	478
Amortization of discount	(18)
Depreciation in fair value	(5,832)
Ending balance	$ 178,462

Total liabilities of the Agency decreased by $28.87 million, or 6.3% for the fiscal year end June 30, 2017 when compared to the year ended June 30, 2016.

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

- In August 2016, the Agency issued $30.1 million of Multiple Purpose Bonds. The proceeds of the Multiple Purpose Series 2016 C and D sale were used to purchase approximately $20.2 million in mortgage backed securities and to refund Single Family Housing Bonds Series 27.

- In April 2017, the Agency issued $27.2 million of Multiple Purpose Bonds. The proceeds of the Multiple Purpose Series 2017 A and B were used to purchase approximately $15.2 million in mortgage backed securities and to refund Multiple Purpose Bonds 2007 Series C.

- Total principal payments on bonds were $87.0 million.

    - Bonds redeemed prior to maturity as a result of mortgage loan prepayments were $53.9 million including $2.4 million in Single Family Housing Bonds, $38.5 million in Multiple Purpose Bonds, $10.2 million Mortgage Revenue Bonds and $2.8 million in Multi-Family Mortgage Bonds.

    - Single Family Housing Bonds redeemed as a result of refunding were $10.1 million. Multiple Purpose Bonds redeemed as a result of refunding were $11.5 million.

    - Bonds redeemed as result of scheduled maturities were $11.5 million.

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, 2017 with comparative data from the prior fiscal year (in thousands):

	2017	2016	Percentage change
Operating revenues:			
Interest on investments	$ 1,035	1,188	(12.9)%
Interest on mortgage loans	15,104	16,728	(9.7)
Interest on mortgage backed securities	5,491	5,168	6.3
Fee income	1,178	987	19.4
Sales of state tax credits	594	594	—
Gain on sales of loans and securities	478	310	54.2
Gain on bond redemptions	595	501	18.8
Other revenue, net	253	16	1,481.3
Total operating revenues	24,728	25,492	(3.0)
Operating expenses:			
Financing costs	15,297	16,508	(7.3)
Mortgage servicing expenses	296	342	(13.5)
Operational expenses	4,779	4,482	6.6
Loan loss expenses, net	(886)	804	...
Total operating expenses	19,486	22,136	(12.0)
Operating income	5,242	3,356	56.2
Nonoperating revenues (expenses):			
Net appreciation (depreciation) in fair value of investments	(7,077)	4,080	...
Other nonoperating revenue	1,000	755	32.5
Federal programs:			
Program revenue	2,691	2,854	(5.7)
Program expenses	(2,643)	(2,795)	(5.4)
Administration and period costs	(48)	(59)	(18.6)
Total nonoperating revenues	(6,077)	4,835	...
Increase (decrease) in net position	$ (835)	8,191	...

(Continued)

The Agency reported net operating income of $5.24 million for the fiscal year ended June 30, 2017, compared to net operating income of $3.36 million for the same period last year. After depreciation in the market value of investments and the impact of the Federal Grant Programs the overall net decrease for the fiscal year ended June 30, 2017 is $835 thousand compared with a net increase of $8.19 million for the same period last year. Income and expense highlights include:

- Interest income on multi-family loans increased by $22.8 thousand; however, interest income on single family loans decreased by $1.64 million. This decrease reflects normal portfolio runoff and loan prepayments that are not being offset by whole loan originations due to the transition to the MBS and TBA strategies. The overall change for interest income on loans was a decrease of 9.7%.

- Interest income on investments and MBS increased by $170 thousand or 2.7% due in large part to increased interest on a larger portfolio of mortgage backed securities.

- The gain on sale of loans and securities is $478 thousand sold under the TBA program. There was an overall increase in loans securitized and sold using the TBA program during the fiscal year ended June 30, 2017, partially aided by the new Down Payment Assistance Program.

- Financing costs decreased $1.21 million or 7.3% relative to the same period last year largely due to the reduction in the Agency's bond portfolio. In addition to the reduction in bond interest expense, financing cost decreased due to the replacement of variable rate bonds with fixed rate bonds. Financing cost in FY16 related to two refunded bond issues included $58 thousand in liquidity fees, $12 thousand in remarketing fees and $14 thousand in bond insurance premiums. These are costs that were not incurred in FY17.

- With the adoption of GASB 65, bond closing costs related to bond issuance are expensed rather than capitalized and amortized. In FY17, financing costs related to the issuance of Multiple Purpose 2016 CD bonds and Multiple Purpose 2017 AB bonds totaled $721 thousand. Coincidentally, compared to the same period last year, cost of issuance and underwriters' fees related to the issuance of Multiple Purpose 2015 FG bonds and Multiple Purpose 2016 AB bonds totaled $721 thousand.

- Operational expenses were reported at $4.78 million, up $297 thousand or 6.6%. The increase is due primarily to increases in salaries and benefits of $69 thousand and professional fees of $93 thousand, as well as $54 thousand in expenses related to the Agency's bi-annual housing conference. The jump in professional fees relates to legal and other costs of setting up a new swap provider for potential issuances of variable rate debt in the future. In addition, expenses for homebuyer education support increased $34 thousand.

- Loan and REO write offs, net of reserve adjustments, were $886 thousand for the fiscal year ended June 30, 2017, mostly in the single family and multiple purpose programs, compared to $804 thousand for the previous fiscal year. This includes a $235 thousand decrease in the REO valuation reserve, actual distressed property related expenses of $784 thousand and a decrease in the general loan loss reserve of $154 thousand.

Budgetary Information

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

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

For fiscal year 2017, the Agency budgeted $1.72 million in operating revenues and $5.12 million in operating expenses. Actual operating revenues of $2.79 million were over budget by $1.07 million for two main reasons: (1) Interest income on multifamily loans closed using the Federal Financing Bank (FFB) were not budgeted in operating income and resulted in a budget overage of $592 thousand and (2) Gain on sale of loans and securities was $301 thousand over budget due to stronger performance using the TBA program. Production using the TBA program was accelerated because of the impact of the ASSIST Down Payment Assistance Program. Actual operating expenses of $5.25 million were over budget by $134 thousand reflecting higher interest expense related to the revenue generated from FFB loans.

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, 2017

(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	$ 1,366	—	—	—	1,366
Restricted	5,525	7,381	26,328	10,353	49,587
Accrued interest receivable:					
Investments	1	33	76	37	147
Mortgage loans	1,266	30	784	277	2,357
Mortgage backed securities	—	193	272	—	465
Investments maturing within one year	100	4,502	4,068	3,219	11,889
Current portion of mortgage loans receivable	2,516	199	5,241	8,678	16,634
Current portion of mortgage backed securities	—	1,773	2,607	—	4,380
Other receivables and prepaid expenses	98	28	271	25	422
Due from other funds	174	—	1	—	175
Total current assets	11,046	14,139	39,648	22,589	87,422
Noncurrent assets:					
Investments	—	186	849	2,340	3,375
Mortgage loans receivable, net	27,797	4,793	136,515	80,044	249,149
Mortgage backed securities	—	67,220	106,862	—	174,082
Capital assets	688	—	—	—	688
Real estate owned	80	58	801	—	939
Total noncurrent assets	28,565	72,257	245,027	82,384	428,233
Total assets	39,611	86,396	284,675	104,973	515,655
Deferred Outflows of Resources					
Accumulated decrease in fair value of hedging derivatives - Interest rate swaps	—	290	599	694	1,583
Liabilities					
Current liabilities:					
Notes payable	1,185	—	—	1,784	2,969
Current portion of bonds payable	—	2,216	8,158	1,995	12,369
Accrued interest payable	59	801	1,357	775	2,992
Other payables	368	3	36	5	412
Funds held on behalf of mortgagors	2,868	—	—	—	2,868
Due to other funds	—	—	—	175	175
Total current liabilities	4,480	3,020	9,551	4,734	21,785
Noncurrent liabilities:					
Notes payable	25,685	—	—	13,032	38,717
Bonds payable, net of current portion	—	70,149	224,242	72,015	366,406
Fair value of derivative instrument - interest rate swaps	—	290	599	694	1,583
Other liabilities	263	—	—	485	748
Total noncurrent liabilities	25,948	70,439	224,841	86,226	407,454
Total liabilities	30,428	73,459	234,392	90,960	429,239
Net Position					
Invested in capital assets	688	—	—	—	688
Restricted for bond resolutions	—	13,227	50,882	14,707	78,816
Restricted for special purpose loans	2,193	—	—	—	2,193
Unrestricted	6,302	—	—	—	6,302
Total net position	$ 9,183	13,227	50,882	14,707	87,999

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, 2017

(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	$ 9	352	560	114	1,035
Mortgage loans	1,122	572	8,459	4,951	15,104
Mortgage backed securities	—	2,477	3,014	—	5,491
Fee income	1,046	—	48	84	1,178
Sales of state tax credits	594	—	—	—	594
Gain on sales of loans and securities	478	—	—	—	478
Gain on bond redemptions, net	—	37	558	—	595
Other revenue	253	—	—	—	253
Total operating revenues	3,502	3,438	12,639	5,149	24,728
Operating expenses:					
Financing costs, including interest expense and amortization of bond premium and discount, net	619	2,406	9,091	3,181	15,297
Mortgage service and contract administration fees	1	20	275	—	296
Salaries and benefits	3,454	—	—	—	3,454
Operating expenses	870	8	16	26	920
Professional fees	146	49	65	19	279
Trustee and assignee fees	126	—	—	—	126
Provision for losses on loans and real estate owned	159	39	(1,579)	495	(886)
Total operating expenses	5,375	2,522	7,868	3,721	19,486
Operating income (loss)	(1,873)	916	4,771	1,428	5,242
Nonoperating revenues (expenses):					
Net depreciation in fair value of investments	—	(2,927)	(4,102)	(48)	(7,077)
Other nonoperating revenue	1,000	—	—	—	1,000
Federal programs:					
Program revenue	2,691	—	—	—	2,691
Program expenses	(2,643)	—	—	—	(2,643)
Administration and period costs	(48)	—	—	—	(48)
Total nonoperating revenues (expenses)	1,000	(2,927)	(4,102)	(48)	(6,077)
Income (loss) before transfers	(873)	(2,011)	669	1,380	(835)
Net transfers from (to) other funds	3,500	(3,545)	573	(528)	—
Increase (decrease) in net position	2,627	(5,556)	1,242	852	(835)
Net position:					
Net position at beginning of year	6,556	18,783	49,640	13,855	88,834
Net position at end of year	$ 9,183	13,227	50,882	14,707	87,999

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, 2017

(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	$ 1,058	643	8,596	5,010	15,307
MBS interest receipts	—	2,512	2,966	—	5,478
Mortgage loans principal collections	9,359	2,158	19,777	36,686	67,980
MBS sales and paydowns	—	11,285	8,658	—	19,943
Mortgage loan originations	(27,730)	—	1,148	(17,482)	(44,064)
MBS purchases, net	—	262	(31,888)	—	(31,626)
Fee income and other receipts	3,080	—	48	(74)	3,054
Salaries and benefits payments	(3,457)	—	—	—	(3,457)
Operating expense payments	(1,044)	(54)	(116)	(42)	(1,256)
Service fee and other payments	(1)	(20)	(275)	—	(296)
Other nonoperating revenue	1,000	—	—	—	1,000
Federal program receipts	2,691	—	—	—	2,691
Federal program expenditures	(2,691)	—	—	—	(2,691)
Operating transfers from (to) other funds	(1,148)	9,245	(8,782)	685	—
Net cash (used in) provided by operating activities	(18,883)	26,031	132	24,783	32,063
Cash flows from investing activities:					
Investment sales	—	960	4,938	1,777	7,675
Investment purchases	—	(4,511)	(4,070)	(3,091)	(11,672)
Investment interest receipts	8	356	566	86	1,016
Increase in funds held on behalf of mortgagors	307	—	—	—	307
Sales of distressed properties	—	550	1,054	—	1,604
Distressed property expenditures	(7)	(68)	(396)	—	(471)
Net cash provided by (used in) investing activities	308	(2,713)	2,092	(1,228)	(1,541)
Cash flows from noncapital financing activities:					
Bond and note interest payments	(533)	(2,644)	(8,491)	(3,206)	(14,874)
Bond principal payments	—	(25,323)	(56,267)	(4,791)	(86,381)
Repayment of notes	(1,881)	—	—	(31,443)	(33,324)
Bond issue proceeds	—	(68)	58,243	4	58,179
Increase in notes payable	19,750	—	—	15,825	35,575
Financing costs other than interest	(57)	(11)	(742)	(54)	(864)
Noncapital financing transfers from (to) other funds	3,677	(3,546)	576	(707)	—
Net cash provided by (used in) noncapital financing activities	20,956	(31,592)	(6,681)	(24,372)	(41,689)
Cash flows from capital related financing activities:					
Net cash used in capital related financing activities	(136)	—	—	—	(136)
Net increase (decrease) in cash and cash equivalents	2,245	(8,274)	(4,457)	(817)	(11,303)
Cash and cash equivalents at beginning of year	4,646	15,655	30,785	11,170	62,256
Cash and cash equivalents at end of year	$ 6,891	7,381	26,328	10,353	50,953

VERMONT HOUSING FINANCE AGENCY

(A Component Unit of the State of Vermont)

Statement of Cash Flows - Continued

Year ended June 30, 2017

(dollars in thousands)

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Program Fund	Multi-Family Mortgage Program Fund	Total
Reconciliation of cash flows from operating activities:					
Net operating (loss) income	$ (1,873)	916	4,771	1,428	5,242
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	80	—	—	—	80
Financing costs other than interest	57	11	742	54	864
Investment interest income	(9)	(352)	(560)	(114)	(1,035)
Sales of distressed properties	—	(550)	(1,054)	—	(1,604)
Distressed property expenditures	—	337	280	—	617
Bond and note interest expense	563	2,396	8,351	3,125	14,435
Gain on bond redemptions	—	(37)	(558)	—	(595)
Appreciation in fair value of investments	—	(2,915)	(3,791)	—	(6,706)
Other nonoperating revenue	1,000	—	—	—	1,000
Changes in assets and liabilities:					
(Increase) decrease in accrued interest receivable	(1,214)	107	1,234	58	185
(Increase) decrease in mortgage loans receivable	(18,212)	11,655	10,190	20,384	24,017
(Increase) decrease in mortgage backed securities	—	14,462	(19,439)	—	(4,977)
(Increase) decrease in other receivables and prepaid expenses	(6)	4	5	1	4
Increase (decrease) in other liabilities	709	—	—	(158)	551
Increase (decrease) in other payables	22	(3)	(39)	5	(15)
Net cash (used in) provided by operating activities	$ (18,883)	26,031	132	24,783	32,063

Supplemental noncash operating/investing activities:
Mortgage loans receivable converted to real estate owned amounted to $1,538 in 2017

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, 2017, reserve requirements totaled $204 thousand for the Operating Fund, $203 thousand for the Single Family Mortgage Programs, $4.6 million for the Multiple Purpose Programs and $3.9 million for the Multi-Family Mortgage Programs. Amounts held in reserve accounts as of June 30, 2017 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.

(b) Net Position

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

- *Invested in Capital Assets* – Capital assets, net of accumulated depreciation, and cost of construction or improvement of those assets.
- *Restricted* – Net Position subject to externally imposed stipulations, including those for excess yield loans.
- *Unrestricted* – Net Position that is not subject to externally imposed stipulations. Unrestricted Net Position may be designated for specific purposes by action of management or the Board of Commissioners or may otherwise be limited by contractual agreements with outside parties.

(c) Cash Equivalents

The Agency considers all highly liquid investments with original maturities of three months or less to be cash equivalents for purposes of the Statement of Cash Flows. Cash equivalents also includes mortgage payments which are held in trust by loan servicers in depository accounts or amounts in transit to trustees to be invested in collateralized repurchase agreements.

(d) Mortgage Loans Receivable

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

The allowance for the single family loan portfolio is based on the age of the loans receivable, current economic conditions and prior loss experience. The allowance for the multi-family loan portfolio is based on a review of each loan and considers the operating cash flows of the respective projects and fair values of the properties. At June 30, 2017, the allowances for loan losses totaled $6.375 million, broken out as follows: $2.587 million for the Operating Fund, $49 thousand for the Single Family Fund, $1.879 million for the Multiple Purpose Fund and $1.860 million for the Multi-Family Fund. The Agency determined in 2017 that it was in compliance with federal tax laws related to excess yield and discontinued an allowance that the Agency had carried in prior years for potential loan forgiveness that might have been required to maintain compliance. The reduction in the allowance resulted in a negative provision for losses and real estate owned in the Multiple Purpose Bond Fund.

The reserve for federally funded mortgage loans made under Section 1602 and the Tax Credit Assistance Program (TCAP) held in the Operating Fund is $19.579 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 appreciation (depreciation) in the fair value is recognized in the Statement of Revenues, Expenses and Changes in Net Position.

(f) Investments

Investments are comprised of short-term investments other than cash equivalents that mature in one year or less, and long-term investments with maturities in excess of one year. Investments are reported at fair value in the Statement of Net Position. The net appreciation (depreciation) in the fair value of investments, including both realized and unrealized gains and losses, is recognized in the Statement of Revenues, Expenses, and Changes in Net Position. Fair values of all other investments are based upon quoted market prices.

(g) Guaranteed investment contracts

Guaranteed investment contracts are traditional investment contracts held by the Agency. The contract issuer is contractually obligated to repay the principal and interest at a specified interest rate that is guaranteed to the Agency. The guaranteed investment contracts are valued at the contract value. The Agency may withdraw the funds held by the issuer at any date.

(h) 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.

(i) Real Estate Owned

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

(j) 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.

(k) 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 is $225,000; $222,000; $219,000; $217,000 and $214,000 for the five years ending June 30, 2018 through 2022, 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.

(l) 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.

(m) Arbitrage to be Rebated

Bonds issued by the Agency are subject to a variety of Internal Revenue Service (IRS) regulations which limit the amount of income which may be earned with non-mortgage investments to an amount not greater than that amount which would have been earned had the funds been invested at the yield on the bonds as defined by the IRS. Excess earnings must be rebated every five years.

(n) Operating and Nonoperating Revenues and Expenses

The Agency records all revenues and expenses related to its loan programs as operating revenues and expenses since they are generated from the Agency's daily operations needed to carry out its statutory purposes. Investment income is recorded as operating revenue in all funds. Gains and losses on bond redemption are recorded in operating results, as they are a part of the normal operations of the Agency's activities.

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

(o) Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires estimates and assumptions that affect the reported amount of the assets and liabilities and contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to estimates and assumptions include the provision for loan losses and the valuation of investments.

(3) Cash, Cash Equivalents and Investments

For mortgage program investments, bond resolution requirements mandate specific classes of investment vehicles. Qualified investments are: direct obligations of the United States of America; obligations unconditionally guaranteed by the United States of America; indebtedness issued by certain federal agencies; bank time deposits evidenced by certificates of deposits insured by the Federal Deposit Insurance Corporation (FDIC) and, if in excess of insured limits, collateralized in full by the aforementioned federal government investments; obligations of the State of Vermont, and/or federal or state insured mortgages; collateralized repurchase agreements secured by obligations of the federal government; Guaranteed Investment Contracts (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, 2017. 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, 2017 totaled $5.519 million. Of this amount, $4.035 million was exposed to custodial credit risk as uninsured and uncollateralized.

(b) Cash and Investments

The Agency's cash and investments at June 30, 2017 are presented below (in thousands).

		Investment maturities (in years)			
	Total	**Less than 1**	**1 – 5**	**6 – 10**	**More than 10**
Cash	$ 5,529	5,529	—	—	—
Money market accounts	25,008	25,008	—	—	—
Certificates of deposit	3,936	1,596	2,340	—	—
Guaranteed investment contracts	20,599	20,416	—	—	183
U.S. Treasury securities	10,293	10,293	—	—	—
Government agency securities	852	—	—	3	849
Mortgage backed securities	178,462	4,380	230	185	173,667
Total cash and investments	$ 244,679	67,222	2,570	188	174,699

The following table provides information on the credit ratings associated with the Agency's cash and investments at June 30, 2017 (in thousands):

	Total	**AAA**	**AA**	**A**	**NR**
Cash	$ 5,529	—	—	—	5,529
Money market accounts	25,008	—	—	—	25,008
Certificates of deposit	3,936	—	—	—	3,936
Guaranteed investment contracts	20,599	—	15,530	5,069	—
U.S. Treasury securities	10,293	10,293	—	—	—
Government agency securities	852	852	—	—	—
Mortgage backed securities	178,462	178,462	—	—	—
Total cash and investments	$ 244,679	189,607	15,530	5,069	34,473

(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 8% of the Agency's cash and investments are invested in guaranteed investment contracts. Bayerische, PNC, Natixis, Credit Agricole, Transamerica, and AIG are 73%, 17%, 4%, 2%, 2%, and 2%, 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.

(e) Fair Value of Investments

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

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

The following table presents the investments that the Agency measured at fair value:

	Total	Level 1	Level 2	Level 3
Certificates of deposit	$ 3,936	—	3,936	—
U.S. Treasury securities	10,293	10,293	—	—
Government agency securities	852	852	—	—
Mortgage backed securities	178,462	—	178,462	—
Total investments and MBS	$ 193,543	11,145	182,398	—

(4) Mortgage and Construction Loans Receivable

(a) Single Family Mortgage Loans Receivable

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

At June 30, 2017, approximately 31.6% 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 8.50%, and are collateralized by first mortgage liens on all real and personal property of the mortgaged premises.

(5) Capital Assets

	Beginning balance	Additions	Ending balance
Capital assets not being depreciated:			
Land	$ 50	—	50
Capital assets being depreciated:			
Building	1,001	—	1,001
Building improvements	795	65	860
Computer equipment	1,161	71	1,232
Furniture and fixtures	213	—	213
Total capital assets being depreciated	3,170	136	3,306
Less accumulated depreciation for:			
Building	(538)	(25)	(563)
Building improvements	(720)	(14)	(734)
Computer equipment	(1,123)	(39)	(1,162)
Furniture and fixtures	(207)	(2)	(209)
Total accumulated depreciation	(2,588)	(80)	(2,668)
Total capital assets being depreciated, net	582	56	638
Capital assets, net	$ 632	56	688

Depreciation expense of $80 thousand was charged to the Operating Fund.

(6) Real Estate Owned

Real estate owned (REO) at June 30, 2017 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, 2017 the net realizable value of REO properties held by the Agency totals $939 thousand, of which $80 thousand is related to the Operating Fund, $58 thousand to the Single Family Fund and $801 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, 2017 are as follows (in thousands):

A. Single Family Mortgage Program Fund:	
Housing Program:	
Series 17, maturing 2017 to 2033, interest at 3.182%	$ 570
Series 19, maturing 2017 to 2035, interest at 3.492% to 4.75%	3,745
Total Housing Program	4,315
Mortgage Revenue Bonds (Mortgage Backed Securities Program):	
Series 2009A, Subseries A-1 and Series 2010 A, maturing 2017 to 2041, interest at 2.60% to 4.50%	14,285
Series 2009A, Subseries A-2 and Series 2011 A, maturing 2017 to 2041, interest at 2.15% to 4.50%	17,895
Series 2009A, Subseries A-3, maturing 2017 to 2041, interest at 2.49%	35,740
Total Mortgage Revenue Bond Program	67,920
Total Single Family Mortgage Program Fund	72,235
B. Multiple Purpose Bond Program Fund:	
Multiple Purpose Bonds:	
2007 Series A and B, maturing 2017 to 2037, interest at 4.197%	8,355
2008 Series C, maturing 2017 to 2040, interest at 3.167% to 5.35%	7,050
2012 Series A, B and C, maturing 2017 to 2042, interest at 2.35% to 4.125%	27,875
2013 Series A, B and C, maturing 2017 to 2043, interest at 2.4% to 4.875%	17,785
2014 Series A and B, maturing 2017 to 2044, interest at 1.25% to 4.25%	34,810
2015 Series A, B, C, D and E, maturing 2017 to 2045, interest at 1.35% to 4.78%	30,215
2015 Series F and G, maturing 2017 to 2045, interest at 1.20% to 4.0%	20,825
2016 Series A and B, maturing 2017 to 2046, interest at 0.85% to 4.0%	25,955
2016 Series C and D, maturing 2017 to 2046, interest at 0.70% to 4.0%	27,930
2017 Series A and B, maturing 2018 to 2047, interest at 1.10% to 4.05%	27,235
Total Multiple Purpose Bonds	228,035

C. Multi-Family Mortgage Program Fund:	
Mortgage Program:	
2003 Series A and B, maturing 2017 to 2043, interest at 5.05% to 5.25%	3,500
2012 Series A, B and C, maturing 2017 to 2052, interest at 1.787% to 4.629%	23,425
2014 Series A, B and C, maturing 2017 to 2045, interest at 1.95% to 6.0%	14,090
Total Mortgage Program	41,015
Direct Placement Program:	
Variable Rate Demand Revenue Bonds, Series 1, maturing 2018 to 2038, interest at 4.18% to 5.49%	3,530
Variable Rate Demand Revenue Bonds, Series 2, maturing 2018 to 2038, interest at 3.756% to 4.61%	2,175
Total Direct Placement Programs	5,705
HFA Initiative Multifamily Bonds:	
2009 Series B, maturing 2017 to 2041, interest at 3.61%	5,990
2009 Series C and 2011 Series A, maturing 2017 to 2051, interest at 1.90% to 3.2%	18,575
2012 Series A, maturing 2017 to 2043, interest at 5.25%	2,814
Total HFA Initiative Bonds	27,379
Total Multi-Family Mortgage Program Fund	74,099
Total bonds payable	374,369
Plus Unamortized Bond Premium (Discount), net	4,406
	$ 378,775

All calendar year 2017 maturities on bonds payable occur after June 30, 2017.

Future maturities on bonds payable as of June 30, 2017 are as follows (in thousands):

Year ending	Single Family		Multiple Purpose		Multi-Family		Total	
June 30:	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 2,190	2,014	7,955	7,857	1,999	2,760	12,144	12,631
2019	2,255	1,950	8,765	7,709	2,009	2,712	13,029	12,371
2020	2,280	1,887	8,810	7,522	1,810	2,658	12,900	12,067
2021	2,335	1,819	8,980	7,316	1,653	2,604	12,968	11,739
2022	2,385	1,748	9,060	7,085	1,807	2,550	13,252	11,383
2023-2027	12,730	7,562	48,095	31,278	11,396	11,701	72,221	50,541
2028-2032	15,790	5,475	50,430	22,693	15,220	9,181	81,440	37,349
2033-2037	16,430	3,304	46,880	12,918	15,965	6,030	79,275	22,252
2038-2042	15,840	1,128	22,560	5,815	13,813	2,996	52,213	9,939
2043-2047	—	—	16,120	1,753	6,232	762	22,352	2,515
2048-2052	—	—	380	15	2,155	148	2,535	163
2053-2057	—	—	—	—	40	2	40	2
Total	$ 72,235	26,887	228,035	111,961	74,099	44,104	374,369	182,952

A summary of bonds payable, discount on bonds, and premium on bonds activity for the year ended June 30, 2017 is as follows (in thousands):

	Beginning balance	Increases	Decreases	Ending balance	Due within one year	Due thereafter
Bonds payable	$ 403,970	57,375	(86,976)	374,369	12,144	362,225
Discount on bonds	(214)	—	43	(171)	(13)	(158)
Premium on bonds	3,816	1,617	(856)	4,577	238	4,339
Bonds payable, net	$ 407,572	58,992	(87,789)	378,775	12,369	366,406

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, 2017, debt service requirements of the variable rate bonds and net swap payments, assuming current interest rates remain constant, are as follows (in thousands):

	Variable rate		Interest rate	
Year ending June 30:	**Principal**	**Interest**	**swaps, net**	**Total**
2018	$ 1,205	227	754	2,186
2019	1,180	219	715	2,114
2020	1,155	208	681	2,044
2021	1,180	198	647	2,025
2022	4,170	171	555	4,896
2023-2027	6,070	569	1,844	8,483
2028-2032	3,755	382	1,230	5,367
2033-2037	4,290	212	653	5,155
2038-2040	2,310	33	92	2,435
Total	$ 25,315	2,219	7,171	34,705

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

Issue	Counter-Party	Ratings (Moody's/S &P)	Effective date	Notional amount	Termination date	Fixed swap payment	Variable receivable rate	Fair Value at 6/30/2017
Series 17	BNY Mellon	Aa2/AA-	4/23/2003	$ 570	5/1/2019	3.18%	70% 1mo LIBOR	$ (12)
Series 19	BNY Mellon	Aa2/AA-	4/8/2004	3,000	11/1/2027	3.49%	70% 1mo LIBOR	(278)
MPB 2007A	BNY Mellon	Aa2/AA-	7/24/2007	8,355	5/1/2037	4.20%	65% 1mo LIBOR + 0.28%	(86)
MPB 2008C	Wells Fargo	Aa2/AA-	9/24/2008	3,185	5/1/2040	3.17%	SIFMA + 0.05%	(120)
MPB 2013A	BNY Mellon	Aa2/AA-	11/30/2004	4,500	5/1/2029	3.68%	SIFMA + 0.10%	(393)
MF Series 1A	KeyBank NA	Aa3/A-	1/25/2007	560	1/1/2022	4.24%	SIFMA + 0.15%	(62)
MF Series 1B	KeyBank NA	Aa3/A-	1/25/2007	1,515	1/1/2022	4.18%	SIFMA + 0.10%	(165)
MF Series 1C	KeyBank NA	Aa3/A-	1/25/2007	1,455	1/1/2022	5.49%	1mo LIBOR + 0.05%	(218)
MF Series 2A	KeyBank NA	Aa3/A-	1/24/2008	1,085	1/5/2023	3.80%	SIFMA + 0.15%	(113)
MF Series 2B	KeyBank NA	Aa3/A-	1/24/2008	230	1/5/2023	3.76%	SIFMA + 0.10%	(24)
MF Series 2C	KeyBank NA	Aa3/A-	1/24/2008	860	1/5/2023	4.61%	1mo LIBOR + 0.05%	(112)
Total				$ 25,315				$ (1,583)

By using derivative financial instruments to hedge exposures to changes in interest rates, the Agency exposes itself to credit, market, and basis risk. Credit risk is the failure of the counter-party to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counter-party owes the Agency, which creates credit risk for the Agency. When the fair value of a derivative contract is negative, the Agency owes the counter-party and, therefore, it does not possess credit risk. The Agency minimizes its credit risk in derivative instruments by entering into transactions with high-quality counter-parties whose credit ratings are higher than A. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rates is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Basis risk is the risk that variable rate payments to bondholders will not equal variable rate receipts from the counterparty.

(9) Notes Payable

The Agency may borrow from the Federal Home Loan Bank (FHLB) in an amount not to exceed assets pledged to the FHLB. As of June 30, 2017, the Agency had outstanding borrowings totaling $1.031 million which are secured by mortgage loans with a carrying value of $2.496 million. These borrowings have interest rates ranging from 0% to 6.32% and mature from February 2018 through October 2026.

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

The Agency has a $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 2024. The proceeds of this note are to provide financing for energy efficiency projects described in Act No. 97 of the Acts of 2013.

The Agency has $22.989 million in 40 year amortizing notes payable to the Federal Financing Bank. These borrowing have interest rates ranging from 2.239% to 3.343%, and mature from March 2047 to January 2057. The proceeds of these notes were used to finance FHA Risk-Sharing Insured Mortgage Loans.

The Agency is operating under unsecured lines of credit that total $61.633 million with lending institutions expiring in 2018. At June 30, 2017, there was a $12.016 million Multi-Family balance outstanding at interest rates of 1.422% to 2.188%. 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, 2017 are as follows (in thousands):

	Operating		Multi-Family		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:						
2018	$ 1,185	683	1,784	240	2,969	923
2019	1,615	647	10,487	140	12,102	787
2020	1,277	621	295	70	1,572	691
2021	289	611	540	58	829	669
2022	302	603	1,710	84	2,012	687
2022 - 2027	2,318	2,877	—	—	2,318	2,877
2027 - 2032	2,129	2,611	—	—	2,129	2,611
2032 - 2037	2,640	2,279	—	—	2,640	2,279
2037 - 2042	3,275	1,867	—	—	3,275	1,867
2042 - 2047	4,012	1,354	—	—	4,012	1,354
2047 - 2052	3,855	814	—	—	3,855	814
2052 - 2057	3,973	242	—	—	3,973	242
Total	$ 26,870	15,209	14,816	592	41,686	15,801

A summary of notes payable activity for the year ended June 30, 2017 is as follows (in thousands):

	Beginning balance	Increases	Decreases	Ending balance	Current	Non-current
Line of credit borrowings	$ 27,634	15,825	(31,443)	12,016	1,784	10,232
Notes payable	11,801	19,750	(1,881)	29,670	1,185	28,485
Total	$ 39,435	35,575	(33,324)	41,686	2,969	38,717

(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 $262 thousand for the year ended June 30, 2017, and is included in salaries and benefits expense.

(12) Gain on Bond Redemptions

During the year ended June 30, 2017, the Agency redeemed $12.6 million of its Single Family Bonds, $38.5 million of its Multiple Purpose Bonds, and $2.8 million of its Multi-Family Bonds prior to scheduled maturity dates. Net gain on bond redemptions was $595 thousand and represents the net unamortized bond premium and discount balances at the time the bonds were retired.

(13) Federal Programs

In fiscal year 2017, the Agency participated in the following federal funding programs:

- On July 1, 2009, VHFA entered into an agreement with the United States Department of Housing and Urban Development (HUD) to administer $5.4 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 Internal Revenue Code Section 42 Housing Credits. As of June 30, 2017, the Agency had distributed the full $5.4 million from this program.

- On August 26, 2009, VHFA made its first distribution under Section 1602 of the American Recovery and Reinvestment Act of 2009 which authorized the United States Department of the Treasury to issue grants to State housing credit agencies in lieu of low-income housing credits. The program allows states to exchange up to 100% of returned and unused pre-2009 ceiling credits and 40% of 2009 per capita and national pool credits for cash. VHFA administered the distribution of the cash to eligible housing developments to pay for capital items. As of June 30, 2017, VHFA had exchanged approximately $1.7 million of credits for $14.2 million in awarded funds, the full amount of which has been disbursed.

- On June 15, 2009, VHFA signed a memorandum of agreement with the State of Vermont to administer $7.0 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, 2017 VHFA had incurred program expenses of $15.3 million, funded by the $7.0 million NSP award and $8.5 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, 2017, VHFA had incurred program expenses of $6.2 million, funded by the $2.9 million NSP award and $3.4 million from the sale of rehabilitated houses.

- During fiscal year 2017, 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 $2.6 million in HAP payments under this program during the year ended June 30, 2017.

(14) Commitments and Contingencies

At June 30, 2017, the Agency had outstanding commitments in the amount of $16.0 million to purchase mortgage loans or mortgage backed securities pursuant to its normal funding from bond proceeds. The Agency also had $12.2 million of outstanding commitments to purchase securities under the TBA model. In addition, there were commitments of $23.7 million for general loans.

Under the Single Family Mortgage Programs, the Agency has obtained surety bonds in the amount of $2.0 million expiring between 2034 and 2035, which satisfy the requirements of certain bond resolutions.

(15) Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; employees' health; and natural disasters. The Agency manages these risks through a combination of participating in the State self-insurance program and purchasing commercial insurance packages in the name of the Agency. The Agency has not experienced settled claims resulting from these risks which have exceeded its insurance coverage. In addition, the Agency's bylaws provide for the indemnification of Agency commissioners and officers by the Agency. This indemnification requirement is supported by various statutes related to claims against employees and entities of the State and the Agency's authorizing legislation which includes the benefit of sovereign immunity.

(16) Conduit Debt Obligation

On July 29, 2004, the Agency issued tax-exempt bonds and taxable bonds on a conduit basis. The proceeds of the bonds were used for the purpose of providing funds to finance the construction, furnishing and equipping of a student housing facility. As of June 30, 2017, $21.545 million of the bonds were outstanding.

On October 29, 2010 and October 31, 2012, the Agency issued tax-exempt bonds and taxable bonds on a conduit basis. The proceeds of the bonds were used for the purpose of financing the new construction of a planned multi-level retirement community. The bonds were sold on a private placement basis. As of June 30, 2017, $10.175 million of the bonds were outstanding.

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

(17) Subsequent Events

The events that occur after the date of the Statement of Net Position but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the Statement of Net Position are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the Statement of Net Position require disclosure in the accompanying notes. Management evaluated the activity of VHFA through September 30, 2017 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.

CohnReznick

Accounting • Tax • Advisory