VERMONT HOUSING FINANCE AGENCY

(A Component Unit of the State of Vermont)

Financial Statements and
Required Supplementary Information

June 30, 2012

(With Independent Auditors' Report Thereon)

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

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Reznick Group
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Vermont Housing Finance Agency (the Agency), a component unit of the State of Vermont, as of and for the year ended June 30, 2012, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency, as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2012, 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 to 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* and should be considered in assessing the results of our audit.

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

Reznick Group, P.C.

Baltimore, Maryland
September 28, 2012

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

Management's Discussion and Analysis

June 30, 2012

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, 2012. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole.

Overview of the Agency

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

The majority of the Agency's funding has been provided from the proceeds of sales of tax-exempt and taxable bonds and notes, and advances from lending institutions. Since September 1974, the Agency has issued over $3 billion aggregate principal amount of bonds, notes and line of credit borrowings, of which $632.8 million was outstanding as of June 30, 2012, to finance its various programs. The proceeds of the debt have been or will be used to make mortgage loans to sponsors of Multi-Family residential housing units for persons and families of low and moderate income in the State, to purchase mortgage backed securities (MBS) or mortgage loans on Single Family residential housing units for persons and families of low and moderate income in the State, and to make loans to finance Multi-Family housing developments. The bonds are secured pursuant to the terms of the resolutions under which they were issued.

Overview of the Financial Statements

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

Summary of Net Assets

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

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

The following table summarizes the net assets of the Agency as of June 30, 2012 with comparative data from the prior fiscal year (dollars in thousands):

	2012	2011	Percentage change
Assets			
Cash and investments	$ 175,264	205,917	(14.9)%
Loans receivable, net	437,660	500,198	(12.5)
Mortgage backed securities	104,773	70,877	47.8
Other assets	35,618	31,346	13.6
Total assets	753,315	808,338	(6.8)
Liabilities:			
Bond and notes payable	632,843	700,535	(9.7)
Other liabilities	33,803	22,530	50.0
Total liabilities	666,646	723,065	(7.8)
Net assets:			
Invested in capital assets	810	1,565	(48.2)
Restricted for bond resolutions	81,300	81,137	0.2
Unrestricted	4,559	2,571	77.3
Total net assets	$ 86,669	85,273	1.6%

Total assets decreased by $55.0 million or 6.8% for fiscal year ended June 30, 2012 when compared to the year ended June 30, 2011. The change in assets is primarily the result of:

- Overall cash and investments decreased by $30.7 million, or 14.9 %, from June 30, 2011 primarily due to the higher level of redemptions of Single Family and Multi-Family bonds.
- Mortgage loans receivable decreased a net of $62.5 million or 12.5% due mainly to the collection of outstanding mortgages. Because almost all Single Family mortgages are now being securitized as mortgage backed securities, as mortgages pay down they will not be backfilled with new loans. However, the balance in mortgage backed securities will increase. Total loan originations in the twelve months were $79.8 million including $38.9 million of loans originated using MBS or the Fannie Mae cash window. Loans totaling $1.4 million were originated under the IRS Section 1602 Tax Credit Exchange and the HUD Tax Credit Assistance programs (TCAP).
- Loans originated using federal funds (Section 1602 and TCAP) are pass-through in nature and will not be realized by the Agency and, as such, are fully reserved at year-end. The addition of these reserves accounts for a portion of the net increase in the loan loss provision for the year.

The following table summarizes the change in net mortgage loans receivable for the years ended June 30, 2012 and 2011 (dollars in thousands):

	2012	2011	Percentage change
Beginning balance	$ 500,198	579,130	(13.6)%
Whole loan originations	39,498	33,017	19.6
Tax credit exchange originations	1,320	3,536	(62.7)
HUD TCAP program originations	80	4,490	(98.2)
Cash window loans	392	142	176.1
Principal collections	(94,265)	(107,452)	(12.3)
Loans transferred to REO status	(6,604)	(3,704)	78.3
Loan loss provision	(1,167)	(793)	47.2
Provision for 1602 and TCAP reserves	(1,400)	(8,026)	(82.6)
Sales of cash window loans	(392)	(142)	176.1
Ending balance	$ 437,660	500,198	(12.5)%

The following table summarizes the change in mortgage backed securities for the year ended June 30, 2012 (in thousands):

	2012
Beginning balance	$ 70,877
Purchases	38,528
Principal paydowns	(8,250)
Discount on purchases	(136)
Amortization of discount	11
Appreciation in fair value	3,743
Ending balance	$ 104,773

Total liabilities of the Agency decreased by $56.4 million, or 7.8% for the year ended June 30, 2012 when compared to June 30, 2011, primarily as a net result of:

- The issuance of $30 million of Mortgage Revenue Bonds in November 2011 resulted in an increase in bonds payable of $12 million; $18 million of this issue was comprised of bonds converted from escrow bonds to Treasury owned bonds. The proceeds of the sale were used to purchase new mortgage backed securities.
- The issuance of $20.5 million of HFA Initiative Multi-Family Bonds in December 2011 resulted in an increase in bonds payable of $4.2 million; $16.3 million of this issue was comprised of bonds converted from escrow bonds to Treasury owned bonds. The proceeds of the sale were used to pay off existing Multi-Family loans and to extend additional financing.

- A pay down of $31.8 million of Single Family and Multiple Purpose bonds in November 2011; of this amount, $27 million reflected redemptions due to mortgage prepayments and $4.8 million in scheduled bond maturities.
- A pay down of $20.1 million of Multi-Family bonds in August 2011 and February 2012, which reflected $3 million of scheduled bond maturities and $17.1 million of special redemptions due to prepayments.
- The issuance of $75.3 million of Multiple Purpose bonds in April 2012, which included the refunding of $59.3 million of Single Family mortgage bonds and $16 million of new Multiple Purpose bonds to be used to purchase new mortgage backed securities.
- A pay down of $40.7 million of Single Family and Multiple Purpose bonds in May 2012, which reflected $5 million of scheduled bond maturities and $35.7 million of special redemptions due to prepayments.
- For fiscal year 2011, the Agency was required to implement GASB 53, Accounting and Financial Reporting for Derivative Instruments. In accordance with the provisions of GASB 53, the Agency has recorded $16 million in offsetting assets and liabilities, noncurrent deferred inflow of resources, and noncurrent change in fair value of derivative instrument interest rate swaps, respectively. These balances are reported under other assets, and other liabilities, and account for the increases in both of these balance sheet categories in fiscal year 2012.

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

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

The following summarizes the changes for the fiscal year ended June 30, 2012 with comparative data from the prior fiscal year (dollars in thousands):

	2012	2011	Percentage change
Operating revenues:			
Interest on investments	$ 2,249	4,085	(44.9)%
Interest on mortgage loans	27,963	31,968	(12.5)
Interest on mortgage backed securities	3,604	2,915	23.6
Fee income	704	1,153	(38.9)
Gain (loss) on bond redemptions	(65)	136	(147.8)
Other revenue, net	81	119	(31.9)
Total operating revenues	34,536	40,376	(14.5)
Operating expenses:			
Financing costs	29,732	33,321	(10.8)
Mortgage servicing expenses	662	795	(16.7)
Operational expenses	3,969	4,238	(6.3)
Loan loss expenses, net	2,702	1,870	44.5
Total operating expenses	37,065	40,224	(7.9)
Operating income (loss)	(2,529)	152	(1,763.8)
Nonoperating revenues (expenses):			
Net appreciation in fair value of investments	3,925	182	2,056.6
Federal programs:			
Program revenue	7,763	14,627	(46.9)
Program expenses	(7,536)	(14,384)	(47.6)
Administration and period costs	(227)	(243)	(6.6)
Total nonoperating revenues	3,925	182	2,056.6
Increase in net assets	$ 1,396	334	318.0%

The Agency's net operating loss was $2.529 million for the fiscal year ended June 30, 2012, compared to a net operating income of $152 thousand for the fiscal year ended June 30, 2011. When net nonoperating revenues are included, the overall excess of revenues over expenses for the fiscal year ended June 30, 2012 was $1.396 million compared with a net excess of revenues over expenses in the previous fiscal year of $334 thousand (due mainly to the difference in net appreciation in fair value of investments).

Income and expense highlights include:

- Interest income on loans and mortgage backed securities decreased by $3.3 million (9.5%) reflecting the effect of net portfolio runoff and the reduced spread on the whole loans converted to MBS.
- Interest income on investments decreased by $1.8 million (44.9%). Approximately $1.2 million of the decrease is due to the reduction in the investment portfolio balance as well as lower reinvestment rates. Approximately $600 thousand of the change is related to excess earnings on nonmortgage investments to be rebated to the Internal Revenue Service
- Financing costs decreased $3.6 million (10.8%) relative to the same period prior year due to the net reduction in outstanding bonds and notes payable of $67.7 million and the reduction of interest rates and remarketing fees paid on variable rate debt. The reduction in interest rates was mainly the result of replacing Depfa and Dexia with TD Bank and BNY Mellon as liquidity providers. Remarketing fees were reduced by replacing KeyBank as remarketing agent with Wells Fargo and BNY Mellon.
- Operational expenses dropped by 6.3% compared to the prior year. Salary and benefits expenses decreased $290 thousand due mainly to unfilled staff openings and benefit program changes, such as the transition to a high-deductible health plan, that resulted in lower premiums. Mortgage servicing fees were lower in 2012 by $133 thousand as the Single Family loan portfolio continues to pay down over time. Because of the migration to the mortgage backed securities strategy, loans are now being securitized into MBS's. Therefore, the Single Family portfolio is not being replenished as older loans are being paid off. Operational expenses continue to be down considerably from fiscal year 2009 because of a deliberate effort to reduce costs.
- The Agency saw an increase in Single Family and Multi-Family (East Branch) loan losses and loss provisions from $1.9 million in FY 2011 to $2.7 million in FY 2012. The Agency expected loan losses to be higher this year and has also taken a more conservative approach to reserving for future losses.

Budgetary Information

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

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

For fiscal year 2012, the Agency budgeted $1.77 million in operating revenues and $4.83 million in operating expenses. Actual operating revenues of $1.55 million were under budget by $220 thousand, but actual operating expenses of $4.52 million were under budget by $310 thousand.

Federal grant revenues and expenses related to the Agency's participation in programs under the American Recovery and Reinvestment Act of 2009 (ARRA) and the Federal Housing and Economic Recovery Act of 2008 (HERA) are reported in the Operating Fund, but are not part the Agency's operating budget.

Contacting the Agency's Financial Management

This financial report is designed to provide a general overview of the Agency's operations, and insight into the financial statements. If you have questions about this report or need additional information, please contact the Chief Financial Officer at VHFA, 164 St. Paul St., Burlington, VT 05401 or visit our website at www.vhfa.org.

VERMONT HOUSING FINANCE AGENCY

(A Component Unit of the State of Vermont)

Statement of Net Assets

June 30, 2012

(dollars in thousands)

Assets	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Bond Fund	Multi-Family Mortgage Program Fund	Total
Cash and cash equivalents	$ 3,890	—	—	—	3,890
Certificate of deposit	100	—	—	—	100
Accrued interest receivable:					
Investments	2	393	81	128	604
Mortgage loans	705	1,076	834	368	2,983
Mortgage backed securities	—	218	122	—	340
Current portion of mortgage loans receivable	303	4,279	4,129	5,406	14,117
Current portion of mortgage backed securities	—	1,323	670	—	1,993
Current portion of deferred costs of bond issuance, net	—	132	172	88	392
Current portion of deferred mortgage origination costs, net	—	111	38	—	149
Other receivables and prepaid expenses	107	747	422	46	1,322
Due from other funds	—	380	111	—	491
Total current assets	5,107	8,659	6,579	6,036	26,381
Noncurrent assets:					
Restricted cash and cash equivalents	3,290	98,717	27,989	16,673	146,669
Restricted investments	—	12,016	7,527	5,062	24,605
Mortgage loans receivable, net	10,447	172,526	138,629	101,941	423,543
Mortgage backed securities	—	70,385	32,395	—	102,780
Deferred costs of bond issuance, net	2	2,966	2,532	1,279	6,779
Deferred mortgage origination costs, net	—	62	72	—	134
Prepaid expenses	—	371	578	—	949
Capital assets	810	—	—	—	810
Deferred inflow of resources related to interest rate swaps	—	9,238	5,272	1,520	16,030
Real estate owned	66	2,567	2,002	—	4,635
Total noncurrent assets	14,615	368,848	216,996	126,475	726,934
Total assets	$ 19,722	377,507	223,575	132,511	753,315
Liabilities and Net Assets					
Liabilities:					
Current liabilities:					
Notes payable	$ 722	—	—	4,065	4,787
Current portion of bonds payable	—	71,410	3,860	5,884	81,154
Accrued interest payable	40	2,452	1,207	1,278	4,977
Current portion of unamortized bond premium (discount)	—	75	52	—	127
Current deferred income	65	—	—	—	65
Other payables	555	65	98	13	731
Funds held on behalf of mortgagors	1,663	—	—	4,210	5,873
Arbitrage rebate payable	—	775	—	474	1,249
Due to other funds	407	—	—	84	491
Total current liabilities	3,452	74,777	5,217	16,008	99,454
Noncurrent liabilities:					
Notes payable	9,184	—	—	11,134	20,318
Bonds payable	—	264,710	172,270	89,604	526,584
Fair value of derivative instrument – interest rate swaps	—	9,238	5,272	1,520	16,030
Unamortized bond premium (discount), net	—	1,336	1,207	—	2,543
Deferred income	1,717	—	—	—	1,717
Total noncurrent liabilities	10,901	275,284	178,749	102,258	567,192
Total liabilities	14,353	350,061	183,966	118,266	666,646
Net assets:					
Invested in capital assets	810	—	—	—	810
Restricted for bond resolutions	—	27,446	39,609	14,245	81,300
Unrestricted	4,559	—	—	—	4,559
Total net assets	5,369	27,446	39,609	14,245	86,669
Total liabilities and net assets	$ 19,722	377,507	223,575	132,511	753,315

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2012

(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	$ 4	1,907	132	206	2,249
Mortgage loans	791	14,601	6,388	6,183	27,963
Mortgage backed securities	17	2,682	905	—	3,604
Fee income	654	—	61	(11)	704
Gain (loss) on bond redemptions	—	51	91	(207)	(65)
Other revenue	81	—	—	—	81
Total operating revenues	1,547	19,241	7,577	6,171	34,536
Operating expenses:					
Financing costs, including interest and amortization of premium discount and costs of issuance, net	677	17,006	6,587	5,462	29,732
Mortgage service and contract administration fees	—	496	166	—	662
Salaries and benefits	2,863	—	—	—	2,863
Operating expenses	702	20	5	6	733
Professional fees	90	47	49	5	191
Trustee and assignee fees	179	3	—	—	182
Provision for losses on loans and real estate owned	7	1,484	736	475	2,702
Total operating expenses	4,518	19,056	7,543	5,948	37,065
Operating income (loss)	(2,971)	185	34	223	(2,529)
Nonoperating revenues (expenses):					
Net appreciation in fair value of investments	—	3,356	573	(4)	3,925
Federal programs:					
Program revenue	7,763	—	—	—	7,763
Program expenses	(7,536)	—	—	—	(7,536)
Administration and period costs	(227)	—	—	—	(227)
Total nonoperating revenues (expenses)	—	3,356	573	(4)	3,925
Income (loss) before transfers	(2,971)	3,541	607	219	1,396
Net transfers to (from) operating fund	1,736	(18,496)	17,199	(439)	—
Increase (decrease) in net assets	(1,235)	(14,955)	17,806	(220)	1,396
Net assets at beginning of year	6,604	42,401	21,803	14,465	85,273
Net assets at end of year	$ 5,369	27,446	39,609	14,245	86,669

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, 2012

(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	$ 1,238	15,357	6,103	6,184	28,882
Mortgage backed securities interest receipts	17	2,669	848	—	3,534
Mortgage loans principal collections	5,015	43,172	17,032	29,437	94,656
Mortgage backed securities sales	—	6,819	1,444	—	8,263
Mortgage loan originations	(1,722)	—	—	(38,418)	(40,140)
Mortgage backed securities purchases	—	(21,606)	(16,810)	—	(38,416)
Fee income and other receipts	994	—	61	(11)	1,044
Salaries and benefits payments	(2,977)	—	—	—	(2,977)
Operating expense payments	(733)	(905)	(81)	(56)	(1,775)
Service fee and other payments	—	(490)	(174)	—	(664)
Federal program receipts	8,191	—	—	—	8,191
Federal program expenditures	(7,700)	—	—	—	(7,700)
Operating transfers from (to) other funds	—	49,734	(48,542)	(1,192)	—
Net cash provided by (used in) operating activities	2,323	94,750	(40,119)	(4,056)	52,898
Cash flows from investing activities:					
Investment sales	—	9,693	(7,589)	—	2,104
Investment interest receipts	2	2,659	56	786	3,503
Increase (decrease) in funds held on behalf of mortgagors	30	(17)	—	4,210	4,223
Sales of distressed properties	31	3,952	734	—	4,717
Distressed property expenditures	(2)	(396)	(604)	—	(1,002)
Net cash provided by (used in) investing activities	61	15,891	(7,403)	4,996	13,545
Cash flows from noncapital financing activities:					
Bond and note interest payments	(568)	(15,832)	(5,688)	(5,755)	(27,843)
Bond principal payments	(524)	(129,500)	(20,745)	(42,750)	(193,519)
Repayment of notes	(2,379)	—	—	(26,227)	(28,606)
Bond issue proceeds	—	29,871	75,843	23,638	129,352
Increase in notes payable	774	—	—	24,827	25,601
Bond insurance payments	—	(243)	(59)	(11)	(313)
Costs of bond issuance	9	1,289	(1,500)	(221)	(423)
Noncapital financing transfers from (to) other funds	2,600	(18,382)	17,108	(1,326)	—
Net cash provided by (used in) noncapital financing activities	(88)	(132,797)	64,959	(27,825)	(95,751)
Cash flows from capital related financing activities:					
Capital asset purchases	(82)	—	—	—	(82)
Capital asset sales	656	—	—	—	656
Net cash provided by capital related financing activities	574	—	—	—	574
Net increase (decrease) in cash and cash equivalents	2,870	(22,156)	17,437	(26,885)	(28,734)
Cash and cash equivalents at beginning of year	4,310	120,873	10,552	43,558	179,293
Cash and cash equivalents at end of year	$ 7,180	98,717	27,989	16,673	150,559

(Continued)

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

Statement of Cash Flows

Year ended June 30, 2012

(dollars in thousands)

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Program Fund	Multi-Family Mortgage Program Fund	Total
Reconciliation of cash flows from operating activities:					
Operating income (loss)	$ (2,971)	185	34	223	(2,529)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	112	—	—	—	112
Amortization of costs of bond issuance	44	720	370	217	1,351
Investment interest income	(4)	(2,541)	(132)	(612)	(3,289)
Distressed property expenditures	(18)	1,303	—	—	1,285
Arbitrage rebate	—	634	—	406	1,040
Bond and note interest expense	564	15,380	5,900	5,234	27,078
Loss (gain) on bond redemptions	—	(51)	(91)	207	65
Bond insurance expense	—	243	59	11	313
Loss on sale of capital assets	69	—	—	—	69
Appreciation in fair value of investments	—	3,107	635	—	3,742
Changes in assets and liabilities:					
Decrease (increase) in accrued interest receivable	448	744	(341)	—	851
Decrease (increase) in mortgage loans receivable	3,318	93,087	(30,774)	(9,698)	55,933
Increase in mortgage backed securities	—	(17,894)	(16,002)	—	(33,896)
Decrease (increase) in other receivables and prepaid expenses	(394)	698	254	—	558
Increase in deferred income	1,095	—	—	—	1,095
Increase (decrease) in other payables	60	(865)	(31)	(44)	(880)
Net cash provided by (used in) operating activities	$ 2,323	94,750	(40,119)	(4,056)	52,898

Supplemental noncash operating/investing activities:
Mortgage loans receivable converted to real estate owned amounted to $6,604 in 2012

See accompanying notes to financial statements.

(1) Authorizing Legislation and Nature of Funds

(a) Authorizing Legislation

Vermont Housing Finance Agency (the Agency) was created as a body politic and corporate of the State of Vermont by an Act of the General Assembly approved on April 11, 1974 (the Act). The purpose of the Agency is to promote the expansion of the supply of funds available for mortgages on residential housing and to encourage an adequate supply of safe and decent housing at reasonable costs. The Agency is a component unit of the State of Vermont and the State of Vermont appoints a majority of the Agency's board of commissioners.

The Agency is empowered by the Act and subsequent amendments to issue bonds and notes. Instruments so issued do not constitute a debt or obligation of the State of Vermont and are payable solely from revenues or assets of the Agency.

The State of Vermont has pledged and agreed with the holders of bonds and notes of the Agency not to impair in any way the rights and remedies of such holders.

(b) Basis of Presentation and Nature of Funds

The financial statements are presented on a program basis, combining the various restricted accounts required by each bond resolution into groups that account for the various bonds issued, related costs of issuance and debt service activity and the investment and related earnings of the bond proceeds in mortgages or loans and temporary investments and the maintenance of certain reserve fund requirements – all under the specific requirements of each resolution.

These accounts are in turn grouped by major fund as described below for the Single Family Mortgage Program fund, the Multiple Purpose Program Fund, the Multi-Family Mortgage Program fund, and the unrestricted Operating fund of the Agency.

(i) Operating Fund

This fund derives its revenue principally from fees, mortgage interest and investment income. Operating expenses of the Agency are paid from this fund.

Federal grant revenues and expenses related to the Agency's participation in programs under the American Recovery and Reinvestment Act of 2009 (ARRA) and the Federal Housing and Economic Recovery Act of 2008 (HERA) are reported in the Operating Fund.

Transfers from program funds to the Operating Fund represent amounts allowed to be transferred pursuant to the terms of the Agency's bond resolutions.

(ii) Single Family Mortgage Program Fund

This fund has been established under the Single Family Insured Mortgage Bond Resolution adopted in September 1976, the Single Family Mortgage Purchase Bond Resolution adopted in

June 1978, the Home Mortgage Purchase Bond Resolution adopted in July 1983, the Single Family Housing Bond Resolution adopted in September 1990, and the Mortgage Revenue Bond (Mortgage Backed Securities Program) indenture adopted in December 2009 under the federal New Issue Bond Program (NIBP). Monies from these programs have been used by the Agency to purchase mortgage backed securities or mortgage loans on single family residential housing units for persons and families of low and moderate income in Vermont.

(iii) Multiple Purpose Program Fund

This fund has been established under the Multiple Purpose Bond Indenture adopted in July 2007. Monies from these programs have been used by the Agency to finance mortgage loans on single family residential housing units and Multi-Family residential housing units for persons and families of low and moderate income within the state of Vermont.

(iv) Multi-Family Mortgage Program Fund

This fund has been established under the Multi-Family Mortgage Bond Resolution adopted in February 1977, the Multi-Family Housing Bond Resolution adopted in September 1981, the Multi-Family HFA initiative adopted in December 2009 under the federal NIBP, and various individualized taxable and tax exempt bond resolutions adopted between December 1985 and May 2007. Monies from these programs are used by the Agency to make and finance mortgage loans to sponsors of Multi-Family residential housing units for persons and families of low and moderate income within the State of Vermont.

(v) Reserve Requirements

Under various bond resolutions of the Agency, certain amounts from bond proceeds are required to be set aside and maintained for potential debt service requirements in trusteed accounts. As of June 30, 2012, reserve requirements totaled $7.933 million for the Single Family Mortgage Programs, $5.611 million for the Multiple Purpose Programs and $5.765 million for the Multi-Family Mortgage Programs. Amounts held in reserve accounts as of June 30, 2012 exceeded the required balances in all cases.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Agency's financial statements have been prepared on the accrual basis of accounting using the economic resource management focus. Accordingly, the Agency recognizes revenue in the period earned and expenses in the period incurred.

As permitted under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Agency has elected not to apply Statements of Financial Accounting Standards issued after November 30, 1989.

(b) Net Assets

In accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the Agency's net assets have been classified for external financial reporting purposes into the following three net asset categories:

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

(c) Cash Equivalents

The Agency considers all highly liquid investments, including investment agreements with insurance companies, with original maturities of three months or less to be cash equivalents for purposes of the Statement of Cash Flows. Cash equivalents also includes mortgage payments which are in transit to the trustee to be invested in collateralized repurchase agreements.

(d) Mortgage Loans Receivable

Mortgage loans receivable are carried at their uncollected principal balances less an allowance for loan losses on mortgages. The loan loss allowances are established based on historical loss experience. Future additions to the allowance may be necessary based on changes in economic conditions. At June 30, 2012, the allowance for loan losses for the Agency totaled $28.4 million, broken out as follows: $1.0 million related to Single Family mortgage loans, $2.2 million for Multiple Purpose mortgage loans, $1.7 million for Multi-Family mortgage loans and $23.5 million in the General Fund. The allowance in the General Fund is comprised of $3.9 million for operating fund mortgage loans and $19.6 million for federally funded mortgage loans made under Section 1602 and the Tax Credit Assistance Program (TCAP).

Included in mortgage loans receivable is approximately $9.7 million of multi-family mortgages funded by excess yield. The Agency estimates that it may be required to forgive or restructure up to this amount of these loans prior to the final maturities of the related 1999 and 2007 bond issues, in order to be in compliance with federal tax laws.

(e) Mortgage Backed Securities

Mortgage backed securities consist of Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Government National Mortgage Association (GNMA) certificates. Mortgage backed securities are reported at fair value on the statement of net

assets, and the net increase (decrease) in the fair value is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets.

(f) Investments

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

(g) Depreciation

The Agency records purchases of its capital assets at cost and depreciates that cost over the estimated useful lives of the assets, which are forty years for the building, five to ten years for building improvements, and three to five years for furniture and fixtures and computer equipment, using the straight-line method.

(h) Derivative Instruments – 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 Assets.

All of the Agency's interest rate swaps are deemed to be effective cash flow hedges and therefore the fair value adjustment is reported as a deferred inflow on the Statement of Net Assets.

(i) Amortization

Costs of bond issuance, which represents underwriting fees and legal costs are deferred and amortized over the lives of the respective issues using the straight-line method. Bond discounts and premiums are amortized in the same manner.

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

(j) Income Tax Status

The Agency is generally exempt from federal and Vermont income taxes under Section 115 of the Internal Revenue Code and applicable state laws.

(k) Deferred Loan Origination Fees and Costs

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

(l) Arbitrage to be Rebated

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

(m) 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. Net appreciation and depreciation in the fair value of investments and federal grant revenues and expenses are recorded as nonoperating revenues and expenses. Gains and losses on bond redemption are recorded in operating results, as they are a part of the normal operations of the Agency's activities.

Grants received from federal, state and local governments are recognized as nonoperating revenue as the related expenditures are incurred.

(n) Use of Estimates

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

(o) Recent Accounting Pronouncements

GASB has issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," which will be effective for the Agency beginning with its year ending June 30, 2013 and Statement No. 65, "Items Previously Reported as Assets and Liabilities," which will be effective for the Agency beginning with its year ending June 30, 2014. The Agency will implement these statements as necessary as of their effective date. While the Agency is still in process of determining the effect of implementing these GASB statements, they are not expected to have a material effect on the financial position of the Agency.

(3) Cash, Cash Equivalents and Investments

For mortgage program investments, bond resolution requirements mandate specific classes of investment vehicles. Qualified investments are: direct obligations of the United States of America; obligations unconditionally guaranteed by the United States of America; indebtedness issued by certain federal agencies; bank time deposits evidenced by certificates of deposits insured by the Federal Depository Insurance Corporation (FDIC) and, if in excess of insured limits, collateralized in full by the aforementioned federal government investments; obligations of the State of Vermont, and/or federal or state insured mortgages; collateralized repurchase agreements secured by obligations of the federal government; Guaranteed Investment Contracts (GIC's) 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, 2012. 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. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. The deposits (including certificates of deposit) at June 30, 2012, were $7.0 million. Of these, $6.0 million were exposed to custodial credit risk as uninsured and uncollateralized.

(b) Cash and Investments

The Agency's cash and investments at June 30, 2012 are presented below (dollars in thousands).

		Investment maturities (in years)			
Investment type	**Fair value**	**Less than 1**	**1 – 5**	**6 – 10**	**More than 10**
Cash	$ 7,957	7,957	—	—	—
Money market accounts	40,584	40,584	—	—	—
Certificate of deposit	100	100	—	—	—
Guaranteed investment contracts (GICs)	51,993	36,018	—	—	15,975
US Bank Global (NIBP escrow bond)	66,000	66,000	—	—	—
U.S. Treasury securities	7,123	—	7,123	—	—
Government agency securities	1,507	—	603	—	904
Mortgage backed securities	104,773	1,993	—	378	102,402
Total cash and investments	$ 280,037	152,652	7,726	378	119,281

The following table provides information on the credit ratings associated with the Agency's cash and investments at June 30, 2012 (in thousands):

Investment type	**Fair value**	**AAA**	**AA**	**A**	**NR**
Cash	$ 7,957	—	—	—	7,957
Money market accounts	40,584	—	—	—	40,584
Certificate of deposit	100	—	—	—	100
Guaranteed investment contracts (GICs)	51,993	—	8,934	43,059	—
US Bank Global (NIBP escrow bond)	66,000	66,000	—	—	—
U.S. Treasury securities	7,123	7,123	—	—	—
Government agency securities	1,507	1,507	—	—	—
Mortgage backed securities	104,773	104,773	—	—	—
Total cash and investments	$ 280,037	179,403	8,934	43,059	48,641

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of the Agency's investment in a single issuer. Approximately 19% of the Agency's cash and investments are invested in GICs. AIG, Deutsche Bank, Transamerica, Bayerische LB, Natixis, PNC, Credit Agricole, and Assured Guaranty are 34%, 29%, 15%, 8%, 4%, 4%, 4% and 2% respectively, of the Agency's total GICs. The Agency's investment policy does not limit the amount invested in a single issue.

(d) Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency's policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

(4) Mortgage Loans Receivable

(a) Single Family Mortgage Loans Receivable

Single Family mortgage loans earn interest at annual rates ranging from 4.75% to 9.7%. Mortgage payments are received monthly by the Agency from which a service fee is generally retained by servicing lenders or the subservicer.

At June 30, 2012, approximately 53% 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 2.51% to 8.75%, and are collateralized by first mortgage liens on all real and personal property of the mortgaged premises.

(5) Capital Assets

Capital asset activity for the year ended June 30, 2012 is as follows (in thousands):

	Beginning balance	Additions	Deletions	Ending balance
Capital assets not being depreciated:				
Land	$ 775	—	(725)	50
Capital assets being depreciated:				
Building	1,001	—	—	1,001
Building improvements	688	58	—	746
Computer equipment	1,003	24	—	1,027
Furniture and fixtures	200	—	—	200
Total capital assets being depreciated	2,892	82	—	2,974
Less accumulated depreciation for:				
Building	(413)	(25)	—	(438)
Building improvements	(656)	(11)	—	(667)
Computer equipment	(838)	(73)	—	(911)
Furniture and fixtures	(195)	(3)	—	(198)
Total accumulated depreciation	(2,102)	(112)	—	(2,214)
Total capital assets being depreciated, net	790	(30)	—	760
Capital assets, net	$ 1,565	(30)	(725)	810

Depreciation expense of $112,000 was charged to the operating fund.

(6) Real Estate Owned

Real estate owned (REO) at June 30, 2012 consists of properties held pending sale as a result of foreclosure by the Agency. Real estate owned is carried at the lower of cost or fair value less estimated costs to sell. A valuation allowance has been established to account for the reduction in value of properties held. At June 30, 2012, the valuation allowance totaled $901 thousand. At June 20, 2012 total REO Properties held by the Agency totaled $5.5 million.

(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. Interest is payable semi-annually. All bonds are subject to redemption after various dates at par value.

Outstanding bonds payable at June 30, 2012 are as follows (dollars in thousands):

A. Single Family Mortgage Program Fund:	
Housing Program:	
Series 17, maturing 2012 to 2033, interest at 3.182% to 5.100%	$ 3,175
Series 19, maturing 2012 to 2035, interest at 3.492% to 5.000%	12,440
Series 20, maturing 2012 to 2035, interest at 4.166% to 5.500%	12,405
Series 21, maturing 2012 to 2035, interest at 3.300% to 5.000%	21,160
Series 22, maturing 2012 to 2035, interest at 3.731% to 4.700%	21,080
Series 23, maturing 2012 to 2035, interest at 3.569% to 5.000%	32,150
Series 24, maturing 2012 to 2036, interest at 3.973% to 5.000%	20,210
Series 25, maturing 2012 to 2037, interest at 4.251% to 6.000%	26,900
Series 26, maturing 2012 to 2038, interest at 3.875% to 5.750%	32,765
Series 27, maturing 2012 to 2038, interest at 4.150% to 5.500%	28,400
Total Housing Program	210,685
Mortgage Revenue Bonds (Mortgage Backed Securities Program):	
Series 2009A Escrow (NIBP), coming due 2012, floating rate	66,000
Series 2009A Sub-1, maturing 2028 to 2041, interest at 3.100%	17,830
Series 2010A, maturing 2012 to 2028, interest 0.850% to 4.500%	11,605
Series 2009A Sub-2, maturing 2028 to 2041, interest at 2.320%	18,000
Series 2011A, maturing 2013 to 2028, interest at 0.650% to 4.500%	12,000
Total Mortgage Revenue Bond Program	125,435
Total Single Family Mortgage Program Fund	336,120
B. Multiple Purpose Bond Program Fund:	
Multiple Purpose Bonds:	
2007 Series A and B, maturing 2012 to 2038, interest at 4.100% to 5.750%	35,285
2007 Series C, maturing 2012 to 2038, interest at 3.990% to 5.750%	41,545
2008 Series C, maturing 2012 to 2040, interest at 3.000% to 5.350%	24,010
2012 Series A, B and C, maturing 2012 to 2042, interest at 0.650% to 4.125%	75,290
Total Multiple Purpose Bonds	176,130

C. Multi-Family Mortgage Program Fund:	
Mortgage Program:	
1999 Series B, maturing 2013 to 2030, interest at 5.750% to 6.000%	2,975
1999 Series C and D, maturing 2013 to 2021, interest at 5.500% to 5.800%	1,805
2000 Series A, maturing 2013 to 2039, interest at 5.900%	4,710
2000 Series B, C, and D, maturing 2012 to 2031, interest at 5.650% to 6.700%	1,360
2001 Series A, B, C, and D, maturing 2012 to 2032, interest at 5.400% to 7.270%	4,130
2002 Series A and B, maturing 2012 to 2039, interest at 4.850% to 7.200%	10,250
2003 Series A, B maturing 2012 to 2043, interest at 5.050% to 5.250%	3,905
2003 Series C, maturing 2013 to 2034, interest at 4.250% to 5.100%	9,515
2004 Series A, B, and C, maturing 2012 to 2046, interest at 4.000% to 6.300%	12,825
2005 Series A, B, C, and D, maturing 2012 to 2035, interest at 4.400% to 5.750%	3,960
Total Mortgage Program	55,435
Direct Placement Program:	
Kilbourn Mobile Home Park Bond:	
Taxable bond, maturing 2013 to 2017, interest at 7.500%	162
T.D. Banknorth Borrowing – Courtyard:	
Maturing 2012, interest at 1.47%	3,512
Multi-Family variable rate demand bonds, Series 1 maturing 2013 to 2038, interest at 4.108% to 5.490%	3,895
Multi-Family variable rate demand bonds, Series 2 maturing 2013 to 2038, interest at 3.756% to 4.610%	2,430
Total Direct Placement Programs	9,999
HFA Initiative Multifamily Bonds:	
2009 Series B, maturing 2012 to 2041, interest at 3.610%	6,590
2009 Series C, maturing 2022 to 2051, interest at 2.320%	16,230
2011 Series A, maturing 2012 to 2022, interest at 0.450% to 3.200%	4,250
2012 Series A, maturing 2012 to 2043, interest at 5.250%	2,984
Total HFA Initiative Bonds	30,054
Total Multi-Family Mortgage Program Fund	95,488
Total bonds payable	$ 607,738

All calendar year 2012 maturities on bonds payable occur after June 30, 2012.

NIBP Escrow Bonds are subject to mandatory redemption on December 31, 2012.

Future maturities on bonds payable as of June 30, 2012 are as follows (in thousands):

Year ending	Single Family		Multiple Purpose		Multi-Family		Total	
June 30:	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 71,410	11,024	3,860	7,199	5,884	4,166	81,154	22,389
2014	6,040	10,728	4,725	7,090	2,131	4,041	12,896	21,859
2015	6,740	10,492	4,610	6,974	2,154	3,946	13,504	21,412
2016	7,500	10,222	4,745	6,848	2,117	3,849	14,362	20,919
2017	8,100	9,918	5,115	6,704	2,383	3,745	15,598	20,367
2018-2022	46,205	44,153	29,625	30,444	13,215	16,885	89,045	91,482
2023-2027	51,235	33,694	35,310	23,796	15,651	13,428	102,196	70,918
2028-2032	59,695	22,149	38,730	15,542	18,990	9,235	117,415	46,926
2033-2037	62,190	8,704	33,280	7,284	17,945	4,667	113,415	20,655
2038-2042	17,005	807	15,730	1,002	9,723	1,501	42,458	3,310
2043-2047	—	—	400	6	3,317	445	3,717	451
2048-2052	—	—	—	—	1,978	97	1,978	97
Total	$ 336,120	161,891	176,130	112,889	95,488	66,005	607,738	340,785

A summary of bonds payable, discount on bonds, and premium on bonds and arbitrage rebate payable activity for the year ended June 30, 2012 is as follows (in thousands):

	Beginning balance	Increases	Decreases	Ending balance	Due within one year	Due thereafter
Bonds payable	$ 672,425	128,832	(193,519)	607,738	81,154	526,584
Discount on bonds	(18)	(190)	2	(206)	(6)	(200)
Premium on bonds	2,388	1,358	(870)	2,876	133	2,743
Arbitrage rebate payable	209	1,040	—	1,249	1,249	—

The Agency has entered into interest rate swap agreements with counterparties in connection with the Variable Rate Demand Bonds (VRDB). Under the swap agreement, the swap provider pays the Agency an amount based on the London InterBank Offered Rate (LIBOR) or the Securities Industry and Financial Markets Association (SIFMA), and the Agency pays the swap provider an amount at a fixed rate of interest.

Using rates as of June 30, 2012, debt service requirements of the variable rate bonds and net swap payments, assuming current interest rates remain constant, are as follows (in thousands):

Year ending June 30:	Variable rate Principal	Variable rate Interest	Interest rate swaps, net	Total
2013	975,000	458,565	4,594,427	6,027,992
2014	1,015,000	455,934	4,559,418	6,030,352
2015	1,915,000	452,649	4,518,658	6,886,308
2016	2,820,000	446,429	4,447,785	7,714,214
2017	3,710,000	437,626	4,343,674	8,491,299
2018-2022	23,355,000	1,956,066	19,386,489	44,697,554
2023-2027	26,675,000	1,440,368	14,175,533	42,290,901
2028-2032	30,095,000	951,674	9,397,560	40,444,234
2033-2037	30,085,000	367,368	3,804,813	34,257,181
2038-2041	7,400,000	20,407	358,047	7,778,454
Total	128,045,000	6,987,085	69,586,405	204,618,490

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

Issue	Counter-Party	Ratings (Moody's/S &P)	Effective date	Notional amount	Termination date	Termination option date	Fixed swap payment rate	Variable receivable rate	Fair value at 6/30/2012
Series 17	Bank of New York (BONY)	A2/A	4/23/2003	$ 3,175	5/1/2019	—	3.182%	70% of LIBOR	$ (240)
Series 19	BONY	A2/A	4/8/2004	5,350	11/1/2027	—	3.492%	70% of LIBOR	(804)
Series 20	BONY	A2/A	8/12/2004	5,600	5/1/2028	11/1/2014	4.166%	70% of LIBOR	(530)
Series 21	BONY	A2/A	11/30/2004	7,900	5/1/2029	—	3.682%	SIFMA + 0.10%	(1,136)
Series 22	BONY	A2/A	6/8/2005	13,800	11/1/2034	5/1/2015	3.731%	65% of LIBOR +.28%	(933)
Series 23	BONY	A2/A	10/26/2005	14,500	11/1/2034	11/1/2014	3.569%	65% of LIBOR+ .28%	(1,166)
Series 24	BONY	A2/A	4/19/2006	10,440	11/1/2035	5/1/2015	3.973%	65% of LIBOR+ .28%	(988)
Series 25	BONY	A2/A	7/12/2006	12,945	11/1/2036	11/1/2015	4.251%	65% of LIBOR +.28%	(1,690)
Series 26	BONY	A2/A	10/26/2006	13,450	5/1/2037	5/1/2016	3.897%	65% of LIBOR +.28%	(1,751)
MP2007 A	BONY	A2/A	7/24/2007	12,800	5/1/2037	5/1/2017	4.197%	65% of LIBOR +.28%	(2,013)
MP2007 C	BONY	A2/A	9/12/2007	16,500	11/1/2037	5/1/2017	3.990%	65% of LIBOR +.28%	(2,424)
MP2008 C	Wells Fargo	Aa3/AA-	9/24/2008	9,335	5/1//2040	—	3.167%	SIFMA + 0.05%	(835)
MF Series 1-A	Key Bank	A3/A-	1/25/2007	610	1/1/2022	—	4.240%	SIFMA + 0.15%	(134)
MF Series 1-B	Key Bank	A3/A-	1/25/2007	1,670	1/1/2022	—	4.180%	SIFMA + 0.10%	(364)
MF Series 1-C	Key Bank	A3/A-	1/25/2007	1,615	1/1/2022	—	5.490%	LIBOR + 0.05%	(507)
MF Series 2-A	Key Bank	A3/A-	1/24/2008	1,220	1/5/2023	—	3.800%	SIFMA + 0.15%	(226)
MF Series 2-B	Key Bank	A3/A-	1/24/2008	255	1/5/2023	—	3.756%	SIFMA + 0.10%	(48)
MF Series 2-C	Key Bank	A3/A-	1/24/2008	955	1/5/2023	—	4.610%	LIBOR + 0.05%	(241)
Total				$ 132,120					$ (16,030)

By using derivative financial instruments to hedge exposures to changes in interest rates, the Agency exposes itself to credit, market risk and basis risk. Credit risk is the failure of the counter-party to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counter-party owes the Agency, which creates credit risk for the Agency. When the fair value of a

derivative contract is negative, the Agency owes the counter-party and, therefore, it does not possess credit risk. The Agency minimizes its credit risk in derivative instruments by entering into transactions with high-quality counter-parties whose credit rating is higher than A. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rates is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Basis risk is the risk that variable rate payments to bondholders will not equal variable rate receipts from the counterparty.

(9) Notes Payable

The Agency may borrow from the Federal Home Loan Bank (FHLB) in an amount not to exceed assets pledged to the FHLB. As of June 30, 2012, the Agency had outstanding borrowings totaling $5.1 million which are secured by mortgage loans with a carrying value of $5.7 million. These borrowings have interest rates ranging from 6.3% to 7.7% and mature through December 2018.

The Agency is operating under unsecured variable rate lines of credit that total $59.4 million with lending institutions expiring in 2012 and 2013. At June 30, 2012, there was a $17.5 million balance outstanding at interest rates of 1.0% to 3.0%. The lines of credit were entered into in order to fund working capital and to be used for specific construction projects financed by the Agency.

The Agency has a $500,000 note payable to the Vermont Community Foundation at a rate of 3.0%, maturing in November 2012. The note is uncollateralized.

The Agency has a $2.0 million note payable to the MacArthur Foundation at a rate of 2.0%, maturing 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 line of credit with a bank for $20,000,000 for the purpose of acquiring mortgage backed securities prior to the issuance of single family bonds. The line of credit bears interest at a floating rate based on overnight LIBOR and is secured primarily by certain mortgage backed securities. There was no balance outstanding nor pledged securities at June 30, 2012.

Future notes payable maturities as of June 30, 2012 are as follows (in thousands):

	Operating		Multi-Family		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:						
2013	$ 722	474	4,065	293	4,787	767
2014	2,565	432	11,134	112	13,699	544
2015	335	361	—	—	335	361
2016	690	340	—	—	690	340
2017	1,803	199	—	—	1,803	199
2018 – 2020	3,791	210	—	—	3,791	210
Total	$ 9,906	2,016	15,199	405	25,105	2,421

A summary notes payable activity for the year ended June 30, 2012 is as follows (in thousands):

	Beginning balance	Increases	Decreases	Ending balance	Current	Non-current
Line of credit borrowings	$ 20,290	25,601	(28,369)	17,522	4,065	13,457
Notes payable	7,820	—	(237)	7,583	722	6,861
Total	$ 28,110	25,601	(28,606)	25,105	4,787	20,318

(10) Asset Restrictions

Pursuant to the Act and agreements with bondholders and other parties, the Agency's assets are pledged to secure specific obligations or are otherwise restricted.

Programs which are financed by the issuance of bonds are accounted for separately in accordance with each of the general bond resolutions. Program assets and revenues are pledged to bondholders. Revenues in excess of required amounts are available to be transferred to the Operating Fund.

Amounts transferred to the Operating Fund from the bond resolutions are free and clear of any lien or pledge created by the bond resolutions, and may be used for any lawful purpose under the Act, including payments to various accounts within the bond resolutions. All of the outstanding bonds, except for the Single Family Housing Bonds, are general obligations of the Agency. For general obligation bonds, the Agency covenants that it will restore deficiencies to the bond programs, as defined by the bond resolutions, from the Operating Fund.

The Operating Fund is also the primary source to pay administrative expenses in connection with current and future housing programs, and to provide collateral for credit agreements.

Net assets derived from purpose restricted resources provided under contractual agreements with federal agencies are restricted to the underlying purpose.

(11) Retirement Plan

Upon meeting certain eligibility requirements, the Agency's employees are eligible to participate in the Vermont Housing Finance Agency 403(b) Plan, a 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 $224,000 for the year ended June 30, 2012, and is included in salaries and benefits expense.

(12) Gain on Bond Redemptions

During the year ended June 30, 2012, the Agency redeemed $104.2 million of its Single–Family Housing Program Bonds, $18 million of its Multiple Purpose Bonds, and $17.2 million of its Multi-Family Mortgage Bonds. Loss on bond redemptions was $64,000 and represents the unamortized balance of bond premium and discount and cost of issuance costs that were expensed when the bonds were retired.

(13) Federal Programs

In fiscal year 2012, the Agency participated in the following federal funding programs under the American Recovery and Reinvestment Act of 2009 (ARRA) and Federal Housing and Economic Recovery Act of 2008 (HERA):

On July 1, 2009 VHFA entered into an agreement with the United States Department of Housing and Urban Development (HUD) to administer $5.4 million of funding available to eligible Vermont housing development under Federal Tax Credit Assistance Program (TCAP). The TCAP program, authorized by the American Recovery and Reinvestment Act pays for capital items in developments that receive Section 42 Housing Credits. As of June 30, 2012, the Agency had distributed the full $5.4 million from this program.

On August 26, 2009 VHFA made its first distribution under Section 1602 of the American Recovery and Reinvestment Act of 2009 which authorized the United States Department of the Treasury to issue grants to State housing credit agencies in lieu of low-income housing credits. The program allows states to exchange up to 100% of returned and unused pre-2009 ceiling credits and 40% of 2009 per capita and national pool credits for cash. VHFA administered the distribution of the cash to eligible housing developments to pay for capital items. As of June 30, 2012, VHFA had exchanged approximately $1.7 million of credits for $14.2 million in awarded funds the full amount of which has been disbursed.

On June 15, 2009 VHFA signed a memorandum of agreement with the State of Vermont to administer $7 million out of $19.6 million of Neighborhood Stabilization Program (NSP) funds allocated to the State under the Federal Housing and Economic Recovery Act of 2008. VHFA's portion to administer is called the Homeownership Acquisition and Rehabilitation Program (HARP). The NSP-HARP funds were used to purchase Single Family homes that have been foreclosed upon, rehabilitate each home with a focus on energy efficiency, and resell the homes to income eligible homebuyers. Sales proceeds are recycled to acquire additional properties until 2013 to leverage the original $7.0 million to a goal of $10 million prior to the end of the program. The NSP program requires all States receiving these funds to fully obligate those funds by no later than September 30, 2010 or return them to HUD. Vermont was one of the first states in the country to fully allocate the NSP funds it had received within the first 9 months of the program start up. As of June 30, 2012, VHFA had purchased 44 homes with a total acquisition price of $4.8 million and sold 39 of those homes at aggregate sale prices of $6.0 million.

On May 11, 2011 VHFA signed a memorandum of agreement with the State of Vermont to administer $2.9 million out of $5.0 million of Neighborhood Stabilization Program (NSP-3) funds allocated to the State under the Federal Housing and Economic Recovery Act of 2008. VHFA's portion to administer is called the Homeownership Acquisition and Rehabilitation Program (HARP III). The NSP-HARP III funds were used to purchase single family homes that have been foreclosed upon, rehabilitate each home with a focus on energy efficiency, and resell the homes to income eligible homebuyers. Sales proceeds are recycled to acquire additional properties until 2014 to leverage the original $2.9 million to a goal of $4.0 million over the life of the program (3 years). The NSP program requires all States receiving these funds to fully

obligate those funds by no later than March 3, 2014. As of June 30, 2012, 14 homes were acquired with total acquisition prices of $1.3 million, two of which were completed and sold at prices totaling $292,000.

During fiscal year 2012, 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 19 housing developments (377 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 $2.9 million in HAP payments under this program during the year ended June 30, 2012.

(14) Commitments and Contingencies

At June 30, 2012, the Agency had outstanding commitments in the amount of $22,149,000 to purchase mortgage loans or mortgage backed securities pursuant to its normal funding from bond proceeds. In addition, there were commitments of $6,947,000 for general loans or future program subsidy purposes.

Under the Single Family Mortgage Programs, the Agency has obtained surety bonds in the amount of $13.8 million expiring between 2030 and 2038, which satisfy the requirements of certain bond resolutions.

(15) Risk Management

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

(16) Subsequent Events

The events that occur after the date of the Statement of Net Assets 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 Assets are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the Statement of Net Assets require disclosure in the accompanying

notes. Management evaluated the activity of VHFA through September 28, 2012 (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.