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

Financial Statements and
Required Supplementary Information

June 30, 2019

(With Independent Auditor's Report Thereon)

COHN REZNICK
ACCOUNTING • TAX • ADVISORY

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

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Vermont Housing Finance Agency (the Agency), a component unit of the State of Vermont, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency, as of June 30, 2019, and the 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.

Other Matters

Change in Accounting Principle

As discussed in Note *2(p)* to the financial statements, Vermont Housing Finance Agency adopted new accounting guidance from Governmental Accounting Standards Board Statement No. 91, *Conduit Debt Obligations*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

CohnReznick LLP

Baltimore, Maryland
September 26, 2019

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, 2019. 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.

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 $3.7 billion of bonds, notes and line of credit borrowings, of which $469.6 million was outstanding as of June 30, 2019, 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.

In fiscal year 2019, the Agency adopted GASB Statement No. 91, *Conduit Debt Obligations*. In accordance with the provisions of this statement, State Property Transfer Tax Revenue Bonds that were issued but not reported in the basic financial statements by the Agency in fiscal year 2018, are henceforth included in the Agency's basic financial statements, as well as all other accounts related to the 2018 Bond issue.

Summary of Net Position

The Agency's Statement of Net Position consists primarily of single family and multi-family mortgage loans, mortgage backed securities, cash and investments, and related bonds and notes payable. It also includes a portfolio of construction loans, as well as a variety of other assets such as real estate owned and capital assets.

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, 2019 with comparative data from the prior fiscal year (dollars in thousands):

	2019	2018*	Percentage change
Assets:			
Cash and investments	$ 62,245	114,990	(45.9)%
Loans receivable, net	242,220	250,518	(3.3)
Mortgage backed securities	241,502	185,402	30.3
Other assets	4,071	4,655	(12.5)
Total assets	550,038	555,565	(1.0)
Deferred Outflows of Resources:			
Interest rate swap agreements	284	873	(67.5)
VHCB related outflows	26,303	16,274	61.6
Total deferred outflows of resources	26,587	17,147	55.1
Total assets and deferred outflows of resources	576,625	572,712	0.7
Liabilities:			
Bond and notes payable	469,621	478,924	(1.9)
Other liabilities	7,665	7,774	(1.4)
Total liabilities	477,286	486,698	(1.9)
Net position:			
Invested in capital assets	667	687	(2.9)
Restricted for bond resolutions	87,223	75,462	15.6
Restricted for special purpose loans	4,401	2,838	55.1
Unrestricted	7,048	7,027	0.3
Total net position	$ 99,339	86,014	15.5%

*The Agency implemented GASB Statement No 91 effective July 1, 2018. 2018 balances have been restated (in thousands) as a result of adopting GASB 91. Cash and investments increased $19,558; Other assets increased $29; VHCB related deferred outflows increased $16,274; Bonds payable increased $35,660; and Accrued interest payable increased $201.

Total assets decreased by $5.5 million for the fiscal year ended June 30, 2019 when compared to the year ended June 30, 2018, primarily as a result of:

- Overall cash and investments decreased by $52.7 million, or 45.9%, from June 30, 2018. The decrease is largely related to the timing of the Agency's bond issuances and the expenditure of GIC funds used for purchasing mortgage backed securities. Since June 30, 2018, the proceeds from both the Multiple Purpose 2017 CD and Multiple Purpose 2018 A bond issues have been fully expended, while the proceeds from Multiple Purpose 2018 BCDEFG bond issue have expended all but $8.4 million. The Agency issued $25 million of Multiple Purpose 2019 A bonds which closed July 16, 2019, subsequent to the date of these financials. The Agency also disbursed approximately $11 million from the State Property Transfer Tax Revenue Bond proceeds account.

Mortgage loans receivable decreased a net of $8.3 million or 3.3% and mortgage backed securities increased a net of $56.1 million or 30.3% and can be summarized as follows:

- Total loan originations in the fiscal year were $115.7 million, vs. $96.7 million for the same twelve month period last fiscal year.
- The change in multi-family portfolio includes $34.5 million in loan originations and $30.6 million in principal collections and payoffs.
- Total single family loan production for the fiscal year was $81.2 million and is comprised of $16.1 million in TBA securitization (85 loans), $63.6 million in Mortgage Backed Securities (392 loans), and $1.5 million in Down Payment Assistance loans (315 loans).
- The single family portfolio change includes $30 million in whole loan and MBS principal collections and payoffs.
- The amount of nonperforming loans transferred out of mortgage loans receivable for the year was $1.1 million.
- Beginning in fiscal year 2010, the Agency ceased originating single family whole loans and began pooling loans into mortgage backed securities. Consequently, as the single family whole loan portfolio pays down, whole loans as a percentage of the total single family portfolio will continue to decrease.

The following table summarizes the change in mortgage loans receivable for the year ended June 30, 2019 (in thousands):

	2019
Beginning balance	$ 250,518
Whole loan originations	34,493
Down Payment Assistance loans	1,481
Principal collections	(43,507)
Nonperforming loans transferred out	(1,059)
Loan loss provision	294
Ending balance	$ 242,220

The following table summarizes the change in mortgage backed securities for the year ended June 30, 2019 (in thousands):

	2019
Beginning balance	$ 185,402
MBS Purchases	63,592
Principal Paydowns on MBS	(17,114)
TBA Purchases	16,147
TBA Sold	(16,269)
Gain on TBA Sold	122
Appreciation in fair value	9,622
Ending balance	$ 241,502

The decrease of $589 thousand in Deferred Outflows of Resources (related to the Interest rate swaps hedging derivatives) is due primarily to the refunding of $10.0 million of Variable Rate Bonds in the current fiscal year.

Proceeds of the State Property Transfer Tax Revenue (PTT) Bonds are used to provide funds to the Vermont Housing and Conservation Board (VHCB) to create affordable housing in Vermont. Amounts transferred to VHCB are recorded as deferred outflows of resources. The State of Vermont has pledged to transfer to the Agency annual State PTT receipts to cover the PTT Bond debt service payments. The $10.0 million increase in Deferred Outflows of Resources – VHCB related deferred outflows is due to $11.6 million in transfers to VHCB in the current fiscal year less $1.6 million in applicable PTT transfers received from the State.

Total liabilities of the Agency decreased by $9.4 million, or 1.9% for the fiscal year end June 30, 2019 when compared to the year ended June 30, 2018.

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

- In November 2018, the Agency issued $41.1 million of Multiple Purpose Bonds. The proceeds of the Multiple Purpose Series 2018 BCDEFG are being used to purchase approximately $30.3 million in mortgage backed securities and to refund Single Family Housing Bonds Series 19, Multi-Family Mortgage Bonds 2003 Series A and Multi-Family Variable Rate Demand Revenue Bonds Series 1 and Series 2.

- Total principal payments on bonds were $53.4 million.

    - Bonds redeemed prior to maturity resulting primarily from mortgage loan prepayments were $26.1 million including $165 thousand in Single Family Housing Bonds, $18.2 million in Multiple Purpose Bonds, $7.1 million Mortgage Revenue Bonds and $635 thousand in Multi-Family Mortgage Bonds.

    - Bonds redeemed prior to maturity resulting from refunding were $14.1 million including $3.0 million in Single Family Housing Bonds, $4.8 million in Multiple Purpose Bonds, $1.1 million Multi-Family Mortgage Bonds and $5.2 million in Multi-Family Variable Rate Demand Revenue Bonds.

    - Bonds redeemed as result of scheduled maturities were $13.2 million.

- Notes payable increased $3.4 million due primarily to $2.2 million net increase in lines of credit used to fund construction loans and working capital and a $2.0 million net increase in notes payable to the Federal Financing Bank, partially offset by a $500 thousand decrease in a note payable to the MacArthur Foundation and a $255 thousand decrease to a note payable to the State of Vermont.

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, 2019 with comparative data from the prior fiscal year (dollars in thousands):

	2019	2018*	Percentage change
Operating revenues:			
Interest on investments	$ 1,988	1,301	52.8%
Interest on mortgage loans	13,131	13,936	(5.8)
Interest on mortgage backed securities	7,110	5,746	23.7
Fee income	994	1,158	(14.2)
Sales of state tax credits	594	594	—
State reimbursements	879	882	(0.3)
Gain on sales of loans and securities	122	462	(73.6)
Gain on bond redemptions	863	706	22.2
Other revenue, net	181	155	16.8
Total operating revenues	25,862	24,940	3.7
Operating expenses:			
Financing costs	16,414	15,254	7.6
Mortgage servicing expenses	234	259	(9.7)
Operational expenses	5,247	5,034	4.2
Loan loss expenses, net	869	910	(4.5)
Total operating expenses	22,764	21,457	6.1
Operating income	3,098	3,483	(11.1)
Nonoperating revenues (expenses):			
Net appreciation (depreciation) in fair value of investments	9,227	(5,847)	—
Other nonoperating revenue	1,000	379	163.9
Federal programs:			
Program revenue	2,718	2,745	(1.0)
Program expenses	(2,669)	(2,696)	(1.0)
Administration and period costs	(49)	(49)	—
Total nonoperating revenues	10,227	(5,468)	—
Increase (decrease) in net position	$ 13,325	(1,985)	—

*The Agency implemented GASB Statement No. 91 effective July 1, 2018. 2018 balances have been restated (in thousands) as a result of adopting GASB 91. Interest on investments increased $144; State reimbursements increased $882; and Financing costs increased $1,026.

The Agency reported net operating income of $3.1 million for the fiscal year ended June 30, 2019, compared to net operating income of $3.5 million for the same period last year. After the change in market value of investments and the impact of the Federal Grant Programs, the overall net increase for the fiscal year ended June 30, 2019 is $13.3 million compared with a net decrease of $2 million for the same period last year. Income and expense highlights include:

- Interest income on multi-family loans increased by $195 thousand. Interest income on single family loans decreased by $1 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 in interest income on loans was a decrease of 5.8%.

- The decrease in Fee income of $164 thousand is due primarily to a $163 thousand decrease in fee income related to the State Property Transfer Tax Revenue Bonds.

- Interest income on investments increased by $687 thousand or 52.8% due to increased interest rates on investments. Interest rates rose approximately 40% since last June across many of our investments. Interest income on MBS increased by $1.4 million or 23.7% due to a 30% increase in the mortgage backed securities portfolio.

- Gain on Bond Redemptions increased $157 thousand or 22.2% due to an increase of $2.0 million in PAC bonds being redeemed relative to the same period last year.

- Financing costs increased $1.2 million or 7.6% relative to the same period last year. Financing costs primarily reflect an increase in the Agency's bond portfolio. The increase in financing costs also reflects $515 thousand in swap termination fees incurred with the refunding of the Single Family Housing Bonds, Series 19 and the Multi-Family Variable Rate Demand Revenue Bonds, Series 1 and Series 2.

  With the adoption of GASB 65, bond closing costs related to bond issuance are expensed rather than capitalized and amortized. In FY19, financing costs related to the issuance of Multiple Purpose 2018 BCDEFG ($41M in bonds) totaled $463 thousand. Compared to the same period last year, cost of issuance and underwriters' fees related to the issuance of Multiple Purpose 2017 CD ($31M in bonds), the Vermont Property Transfer Tax Revenue Bonds Series 2019 ($38M in bonds) and Multiple Purpose 2018 A ($35M in bonds) totaled $384 thousand, $491 thousand and $412 thousand, respectively.

  Offsetting the increase in bond interest expense, financing cost decreased slightly due to the replacement of variable rate bonds with fixed rate bonds. Compared to the same period last year, the liquidity and remarketing fees related to the refunded bond issues decreased by $58 thousand.

- Operational expenses were reported at $5.2 million, up $213 thousand or 4.2%. The increase is due primarily to increases in salaries and benefits of $140 thousand and $56 thousand in expenses related to the Agency's bi-annual housing conference.

- Loan and REO write offs, net of reserve adjustments, were $869 thousand for the fiscal year ended June 30, 2019, mostly related to single family loans. This includes a $175 thousand decrease in the REO valuation reserve, actual distressed property related expenses of $1.3 million, an increase in the distressed property reserve of $82 thousand and a decrease in the general loan loss reserve of $294 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 2019, the Agency budgeted $1.9 million in operating revenues and $5.3 million in operating expenses. Actual operating revenues of $1.6 million were under budget for two main reasons: (1) Multi-family Fee income of $884 thousand was $73 thousand below budget and (2) Gain on sale of loans and securities was $263 thousand below budget because of a decrease in the number of loans securitized and sold using the TBA program. Low utilization of the TBA program was due to more Mortgage Revenue Bond (MRB) funds being available at a rate that made that a better execution. The Down Payment Assistance Program continued to have a positive impact on MRB loan production. Actual operating expenses were under budget by $210 thousand, most notably in the areas of Marketing and Outreach, Employee Benefits, and Trustee and Bank Fees.

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, 2019

(in thousands)

Assets	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Bond Fund	Multi-Family Mortgage Program Fund	State Bond Fund	Total
Current assets:						
Cash and cash equivalents						
Unrestricted	$ 94	—	—	—	—	94
Restricted	4,965	10,533	21,677	9,742	8,226	55,143
Accrued interest receivable:						
Investments	8	32	80	31	16	167
Mortgage loans	1,268	4	633	286	—	2,191
Mortgage backed securities	—	150	506	—	—	656
Investments maturing within one year	100	—	—	1,995	—	2,095
Current portion of mortgage loans receivable	2,179	57	5,315	16,296	—	23,847
Current portion of mortgage backed securities	—	1,621	5,357	—	—	6,978
Other receivables and prepaid expenses	59	5	223	9	1	297
Due from (to) other funds	15	—	(15)	—	—	—
Total current assets	8,688	12,402	33,776	28,359	8,243	91,468
Noncurrent assets:						
Investments	1,997	2	853	2,061	—	4,913
Mortgage loans receivable, net	36,484	905	114,094	66,890	—	218,373
Mortgage backed securities	—	52,941	181,583	—	—	234,524
Capital assets	667	—	—	—	—	667
Real estate owned	80	—	13	—	—	93
Total noncurrent assets	39,228	53,848	296,543	68,951	—	458,570
Total assets	47,916	66,250	330,319	97,310	8,243	550,038
Deferred Outflows of Resources						
VHCB related deferred outflows	—	—	—	—	26,303	26,303
Accumulated decrease in fair value of hedging derivatives - Interest rate swaps	—	—	284	—	—	284
Total deferred outflows of resources	—	—	284	—	26,303	26,587
Total assets and deferred outflows of resources	47,916	66,250	330,603	97,310	34,546	576,625
Liabilities						
Current liabilities:						
Notes payable	2,173	—	—	295	—	2,468
Current portion of bonds payable	—	1,686	10,217	1,536	1,340	14,779
Accrued interest payable	65	577	1,540	684	196	3,062
Other payables	363	5	24	333	—	725
Funds held on behalf of mortgagors	3,074	—	—	—	—	3,074
Total current liabilities	5,675	2,268	11,781	2,848	1,536	24,108
Noncurrent liabilities:						
Notes payable	29,875	—	—	18,088	—	47,963
Bonds payable, net	—	49,872	261,779	59,750	33,010	404,411
Fair value of derivative instrument - interest rate swaps	—	—	284	—	—	284
Other liabilities	250	—	—	270	—	520
Total noncurrent liabilities	30,125	49,872	262,063	78,108	33,010	453,178
Total liabilities	35,800	52,140	273,844	80,956	34,546	477,286
Net Position						
Invested in capital assets	667	—	—	—	—	667
Restricted for bond resolutions	—	14,110	56,759	16,354	—	87,223
Restricted for special purpose loans	4,401	—	—	—	—	4,401
Unrestricted	7,048	—	—	—	—	7,048
Total net position	$ 12,116	14,110	56,759	16,354	—	99,339

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, 2019

(in thousands)

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Bond Fund	Multi-Family Mortgage Program Fund	State Bond Fund	Total
Operating revenues:						
Interest income:						
Investments	$ 63	414	926	249	336	1,988
Mortgage loans	1,520	143	6,830	4,638	—	13,131
Mortgage backed securities	—	1,895	5,215	—	—	7,110
Fee income	944	—	50	—	—	994
Sales of state tax credits	594	—	—	—	—	594
State reimbursements	—	—	—	—	879	879
Gain on sales of loans and securities	122	—	—	—	—	122
Gain on bond redemptions, net	—	24	839	—	—	863
Other revenue	181	—	—	—	—	181
Total operating revenues	3,424	2,476	13,860	4,887	1,215	25,862
Operating expenses:						
Financing costs, including interest expense and amortization of bond premium and discount, net	775	1,665	9,490	3,297	1,187	16,414
Mortgage service and contract administration fees	1	6	227	—	—	234
Salaries and benefits	3,773	—	—	—	—	3,773
Operating expenses	1,040	3	8	26	26	1,103
Professional fees	125	20	26	42	—	213
Trustee and assignee fees	137	2	13	4	2	158
Provision for losses on loans and real estate owned	61	(39)	847	—	—	869
Total operating expenses	5,912	1,657	10,611	3,369	1,215	22,764
Operating income (loss)	(2,488)	819	3,249	1,518	—	3,098
Nonoperating revenues (expenses):						
Net appreciation in fair value of investments	39	2,312	6,784	92	—	9,227
Other revenue	1,000	—	—	—	—	1,000
Federal programs:						
Program revenue	2,718	—	—	—	—	2,718
Program expenses	(2,669)	—	—	—	—	(2,669)
Administration and period costs	(49)	—	—	—	—	(49)
Total nonoperating revenues (expenses)	1,039	2,312	6,784	92	—	10,227
Income (loss) before transfers	(1,449)	3,131	10,033	1,610	—	13,325
Net transfers from (to) other funds	3,013	(588)	(625)	(1,800)	—	—
Increase (decrease) in net position	1,564	2,543	9,408	(190)	—	13,325
Net position:						
Net position at beginning of year	10,552	11,567	47,351	16,544	—	86,014
Net position at end of year	$ 12,116	14,110	56,759	16,354	—	99,339

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, 2019

(in thousands)

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Program Fund	Multi-Family Mortgage Program Fund	State Bond Fund	Total
Cash flows from operating activities:						
Mortgage loans interest receipts	$ 1,536	168	6,884	4,906	—	13,494
MBS interest receipts	—	2,004	4,948	—	—	6,952
Mortgage loans principal collections	7,065	604	12,723	23,115	—	43,507
MBS sales and paydowns	—	6,946	10,168	—	—	17,114
Mortgage loan originations	(9,679)	—	—	(26,294)	—	(35,973)
MBS purchases, net	—	—	(64,235)	—	—	(64,235)
Fee income and other receipts	1,815	—	50	—	879	2,744
Salaries and benefits payments	(3,749)	—	—	—	—	(3,749)
Operating expense payments	(1,221)	(24)	(127)	(82)	(28)	(1,482)
Service fee and other payments	(1)	(6)	(227)	—	—	(234)
State bond program payments	—	—	—	—	(10,029)	(10,029)
Other revenue	1,000	—	—	—	—	1,000
Federal program receipts	2,718	—	—	—	—	2,718
Federal program expenditures	(2,718)	—	—	—	—	(2,718)
Operating transfers from (to) other funds	—	2,752	(10,852)	8,100	—	—
Net cash (used in) provided by operating activities	(3,234)	12,444	(40,668)	9,745	(9,178)	(30,891)
Cash flows from investing activities:						
Investment sales	1,000	13,175	27,595	7,915	—	49,685
Investment purchases	—	(9,249)	(17,187)	(6,304)	—	(32,740)
Investment interest receipts	82	431	948	256	348	2,065
Increase in funds held on behalf of mortgagors	215	—	—	—	—	215
Sales of distressed properties	34	98	474	—	—	606
Distressed property expenditures	(1)	—	(157)	—	—	(158)
Net cash provided by investing activities	1,330	4,455	11,673	1,867	348	19,673
Cash flows from noncapital financing activities:						
Bond and note interest payments	(765)	(1,806)	(8,995)	(3,301)	(1,192)	(16,059)
Bond principal payments	—	(12,210)	(31,230)	(8,712)	(1,310)	(53,462)
Repayment of notes	(2,293)	—	—	(20,296)	—	(22,589)
Bond issue proceeds	—	—	41,867	—	—	41,867
Increase in notes payable	2,260	—	—	23,741	—	26,001
Financing costs other than interest	(5)	—	(498)	(27)	—	(530)
Noncapital financing transfers from (to) other funds	2,994	(588)	(607)	(1,799)	—	—
Net cash provided by (used in) noncapital financing activities	2,191	(14,604)	537	(10,394)	(2,502)	(24,772)
Cash flows from capital related financing activities:						
Capital asset purchases	(64)	—	—	—	—	(64)
Capital asset sales	6	—	—	—	—	6
Net cash used in capital related financing activities	(58)	—	—	—	—	(58)
Net increase (decrease) in cash and cash equivalents	229	2,295	(28,458)	1,218	(11,332)	(36,048)
Cash and cash equivalents at beginning of year	4,830	8,238	50,135	8,524	19,558	91,285
Cash and cash equivalents at end of year	$ 5,059	10,533	21,677	9,742	8,226	55,237

(Continued)

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

Statement of Cash Flows - Continued

Year ended June 30, 2019

(in thousands)

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Program Fund	Multi-Family Mortgage Program Fund	State Bond Fund	Total
Reconciliation of cash flows from operating activities:						
Net operating (loss) income	$ (2,488)	819	3,249	1,518	—	3,098
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation	77	—	—	—	—	77
Financing costs other than interest	6	—	251	29	—	286
Investment interest income	(63)	(414)	(927)	(248)	(336)	(1,988)
Sales of distressed properties	(34)	(74)	(572)	—	—	(680)
Distressed property expenditures	24	—	759	—	—	783
Bond and note interest expense	770	1,666	9,238	3,267	1,187	16,128
Gain on bond redemptions	—	(24)	(839)	—	—	(863)
Appreciation in fair value of mortgage backed securities	—	2,311	6,667	—	—	8,978
Other nonoperating revenue	1,000	—	—	—	—	1,000
Changes in assets and liabilities:						
Decrease (increase) in accrued interest receivable	15	46	(122)	11	—	(50)
(Increase) decrease in mortgage loans receivable	(2,543)	3,390	2,530	4,921	—	8,298
(Increase) decrease in mortgage backed securities	—	4,723	(60,823)	—	—	(56,100)
Decrease (increase) in other receivables and prepaid	18	(3)	(41)	15	—	(11)
Increase in VHCB related deferred outflows	—	—	—	—	(10,029)	(10,029)
Decrease in other liabilities	(24)	—	—	(77)	—	(101)
Increase (decrease) in other payables	8	4	(38)	309	—	283
Net cash (used in) provided by operating activities	$ (3,234)	12,444	(40,668)	9,745	(9,178)	(30,891)

Supplemental noncash operating/investing activities:
Mortgage loans receivable converted to real estate owned amounted to $1,059 in 2019

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 Operating Fund, the Single Family Mortgage Program Fund, the Multiple Purpose Program Fund, the Multi-Family Mortgage Program Fund, and the State Bond Fund.

(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) State Bond Fund

This fund has been established under the Property Transfer Tax Revenue Bond Resolution adopted in December 2017. Bonds issued under this program are special, limited obligations of the Agency paid and secured solely from pledged State of Vermont Property Transfer Tax Revenues. Bond proceeds are used to provide funds to the Vermont Housing and Conservation Board (VHCB) to create affordable housing in Vermont.

(vi) 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, 2019, reserve requirements totaled $245,000 for the Operating Fund, $3,912,000 for the Multiple Purpose Program Fund, and $3,668,000 for the Multi-Family Program Fund. Amounts held in reserve accounts as of June 30, 2019 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 measurement 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 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, 2019, the allowances for loan losses totaled $6,316,000, broken out as follows: $2,667,000 for the Operating Fund, $1,789,000 for the Multiple Purpose Fund and $1,860,000 for the Multi-Family 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 $19,579,000.

(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 guaranteed investment contracts (GICs) are recorded at contract value. Fair values of all other investments are based upon quoted market prices.

(g) Depreciation

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

(h) Real Estate Owned

Real estate owned (REO) 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).

(i) Deferred outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods.

The Agency issued State Property Transfer Tax Revenue (PTT) Bonds in fiscal year 2018 to provide funds to the Vermont Housing and Conservation Board (VHCB), a component unit of the State of Vermont financial reporting entity, to create affordable housing in Vermont. The State of Vermont has pledged to transfer to the Agency $2,500,000 of State PTT receipts annually through 2038 to cover the PTT Bond debt service payments. Cash transfers to VHCB are recorded as deferred outflows of resources. The VHCB related deferred outflows balance is reduced by the State PTT receipts transferred to the Agency that are not attributable to the net PTT Bond interest portion of the debt service payments reimbursement that is reported on the Statement of Revenues, Expenses and Changes in Net Position as State reimbursements.

(j) Hedging Derivatives – Interest Rate Swaps

The Agency enters 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 are $234,000; $233,000; $231,000; $229,000 and $228,000 for the five years ending June 30, 2020 through 2024, 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, if any, 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.

(p) New Accounting Principles

The Agency implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in 2019. The Statement requires additional disclosures including, amounts of unused lines of credit, assets pledged as collateral for debt, and terms specified in debt agreements related to events of defaults, termination events, and acceleration clauses.

The Agency implemented GASB Statement No. 91, *Conduit Debt Obligations* in fiscal year 2019. This Statement provides a single method of reporting conduit debt obligations and clarifies the definition of a conduit debt obligation. One such clarification is conduit debt must possess a characteristic in which the issuer and the third-party obligor cannot be within the same financial reporting entity, which is a modification of the previous requirement that the specified third-party could not be part of the issuer's financial reporting entity. In fiscal year 2018, the Agency provided footnote disclosure only for the State Property Transfer Tax Revenue Bonds because the State of Vermont was not a part of the Agency's financial reporting entity. Under GASB Statement No. 91, the State Property Transfer Tax Revenue Bonds do not qualify as conduit debt since the Agency is a component unit of the State of Vermont financial reporting entity. Therefore, for fiscal year 2019, the State Property Transfer Tax Revenue Bonds are reported in the State Bond Fund section of the Agency's financial statements. As a result of adopting GASB Statement No. 91, the Agency's beginning fiscal year Cash equivalents balance increased $19,558,000, Other assets increased $29,000, VHCB related deferred outflows increased $16,274,000, Bonds payable increased $35,660,000, and Accrued interest payable increased $201,000. There was no change to the Agency's beginning net position because in fiscal year 2018, PTT related interest income of $144,000 plus State reimbursements of $882,000 was equal to PTT related financing costs of $1,026,000.

(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 deposit 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 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, 2019. 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, 2019 totaled $5,409,000. Of this amount, $4,067,000 was exposed to custodial credit risk as uninsured and uncollateralized.

(b) Cash and Investments

The Agency's cash and investments at June 30, 2019 are presented below (in thousands).

		Investment maturities (in years)			
	Total	**Less than 1**	**1 – 5**	**6 – 10**	**More than 10**
Cash	$ 5,418	5,418	—	—	—
Money market accounts	37,107	37,107	—	—	—
Certificates of deposit	3,500	1,439	2,061	—	—
Guaranteed investment contracts	12,712	12,712	—	—	—
U.S. Treasury securities	2,652	656	1,996	—	—
Government agency securities	856	—	2	—	854
Mortgage backed securities	241,502	6,978	24,958	36,818	172,748
Total cash and investments	$ 303,747	64,310	29,017	36,818	173,602

The following table provides information on the credit ratings associated with the Agency's cash and investments at June 30, 2019 (in thousands):

	Total	AAA	AA	A	NR
Cash	$ 5,418	—	—	—	5,418
Money market accounts	37,107	—	—	—	37,107
Certificates of deposit	3,500	—	—	—	3,500
Guaranteed investment contracts	12,712	—	12,676	36	—
U.S. Treasury securities	2,652	2,652	—	—	—
Government agency securities	856	856	—	—	—
Mortgage backed securities	241,502	241,502	—	—	—
Total cash and investments	$ 303,747	245,010	12,676	36	46,025

(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 4% of the Agency's cash and investments are in guaranteed investment contracts. Sumitomo, PNC, and TD Bank are 0.3%, 33.1%, and 66.6%, respectively, of the Agency's total guaranteed investment contracts. 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 investments that the Agency measured at fair value at June 30, 2019 are as follows (in thousands):

	Total	Level 1	Level 2	Level 3
Certificates of deposit	$ 3,500	—	3,500	—
U.S. Treasury securities	2,652	2,652	—	—
Government agency securities	856	856	—	—
Mortgage backed securities	241,502	—	241,502	—
Total investments	$ 248,510	3,508	245,002	—
Interest rate swaps	$ 284		284	—

(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, 2019, approximately 17.8% 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 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

Capital Asset activity for the year ended June 30, 2019 is shown in the following table (in thousands):

	Beginning balance	Additions	Deletions	Ending balance
Capital assets not being depreciated:				
Land	$ 50	—	—	50
Capital assets being depreciated:				
Building	1,001	—	—	1,001
Building improvements	931	42	(21)	952
Computer equipment	1,238	21	(611)	648
Furniture and fixtures	213	—	—	213
Total capital assets being depreciated	3,383	63	(632)	2,814
Less accumulated depreciation for:				
Building	(588)	(25)	—	(613)
Building improvements	(755)	(27)	21	(761)
Computer equipment	(1,191)	(24)	605	(610)
Furniture and fixtures	(212)	(1)	—	(213)
Total accumulated depreciation	(2,746)	(77)	626	(2,197)
Total capital assets being depreciated, net	637	(14)	(6)	617
Capital assets, net	$ 687	(14)	(6)	667

Depreciation expense of $77,000 was charged to the Operating Fund.

(6) Deferred Outflows of Resources – VHCB related deferred outflows

Proceeds of the State Property Transfer Tax Revenue (PTT) Bonds are used to provide funds to the Vermont Housing and Conservation Board (VHCB), a component unit of the State of Vermont financial reporting entity, to create affordable housing in Vermont. Amounts transferred to VHCB are recorded as deferred outflows of resources. The State of Vermont has pledged to transfer to the Agency annual State PTT receipts to cover the PTT Bond debt service payments. The VHCB related deferred outflows beginning balance of $16,274,000 plus $11,650,000 in fiscal year 2019 cash transfers to VHCB less applicable State PTT receipts of $1,621,000 equals the ending VHCB related deferred outflows balance at June 30, 2019 of $26,303,000.

(7) Funds Held on Behalf of Mortgagors

Funds held on behalf of mortgagors are received primarily from multi-family housing developers and are governed by agreements, and released upon satisfactory compliance with their terms.

(8) Bonds Payable

Outstanding bonds payable at June 30, 2019 are as follows (dollars in thousands):

A. Single Family Mortgage Program Fund:	
Mortgage Revenue Bonds (Mortgage Backed Securities Program):	
Series 2009A, Subseries A-1 and Series 2010A maturing 2019 to 2041, interest at 3.01% to 4.50%	$ 9,910
Series 2009A, Subseries A-2 and Series 2011A maturing 2019 to 2041, interest at 2.32% to 4.50%	13,300
Series 2009A, Subseries A-3 maturing 2019 to 2041, interest at 2.49%	28,310
Total Single Family Mortgage Program Fund	51,520
B. Multiple Purpose Bond Program Fund:	
Multiple Purpose Bonds:	
2012 Series A, B and C, maturing 2019 to 2042, interest at 3.05% to 4.125%	16,860
2013 Series A, B and C, maturing 2019 to 2043, interest at 3.35% to 4.875%	13,215
2014 Series A and B, maturing 2019 to 2044, interest at 2.1% to 4.25%	27,090
2015 Series A, B, C, D and E, maturing 2019 to 2045, interest at 2.05% to 4.78%	23,455
2015 Series F and G, maturing 2019 to 2045, interest at 1.625% to 4.0%	15,440
2016 Series A and B, maturing 2019 to 2046, interest at 1.45% to 4.0%	19,965
2016 Series C and D, maturing 2019 to 2046, interest at 1.05% to 4.0%	23,080
2017 Series A and B, maturing 2019 to 2047, interest at 1.55% to 4.05%	23,170
2017 Series C and D, maturing 2019 to 2048, interest at 1.25% to 4.0%	28,850
2018 Series A, maturing 2019 to 2048, interest at 1.875% to 4.0%	34,915
2018 Series B, C, D, E, F and G, maturing 2020 to 2048, interest at 0.0% to 5.05%	41,100
Total Multiple Purpose Bond Program Fund	267,140

C. Multi-Family Mortgage Program Fund:	
Mortgage Program:	
2012 Series A, B and C maturing 2019 to 2052, interest at 2.37% to 4.63%	22,020
2014 Series A, B and C maturing 2019 to 2045, interest at 2.75% to 6.00%	13,130
Total Mortgage Program	35,150
HFA Initiative Multifamily Bonds:	
2009 Series B, maturing 2019 to 2041, interest at 3.61%	5,750
2009 Series C and 2011 Series A, maturing 2019 to 2051, interest at 2.32% to 3.2%	17,745
2012 Series A, maturing 2019 to 2043, interest at 5.25%	2,724
Total HFA Initiative Bonds	26,219
Total Multi-Family Mortgage Program Fund	61,369
D. State Bond Fund:	
Vermont Property Transfer Tax Revenue Bonds	
Series 2018, maturing 2019 to 2037, interest at 2.3% to 3.8%	34,350
Total State Bond Fund	34,350
Total bonds payable	414,379
Plus Unamortized Bond Premium (Discount), net	4,811
	$ 419,190

(All calendar year 2019 maturities on bonds payable occur after June 30, 2019).

A summary of bonds payable, discount on bonds, and premium on bonds activity for the year ended June 30, 2019 is as follows (in thousands):

	Beginning balance	Increases	Decreases	Ending balance	Due within one year	Due thereafter
Bonds payable	$ 426,741	41,100	(53,462)	414,379	14,545	399,834
Discount on bonds	(147)	—	16	(131)	(10)	(121)
Premium on bonds	5,311	767	(1,136)	4,942	244	4,698
Bonds payable, net	$ 431,905	41,867	(54,582)	419,190	14,779	404,411

All bonds in the Single Family Mortgage, Multiple Purpose, and Multi-Family Program Funds are general obligations of the Agency and are collateralized by the operating revenues, loans, funds, and investments pledged pursuant to the respective bond resolutions. The bond documents contain provisions that in the event of default, outstanding principal and accrued interest are immediately due and payable.

Bonds in the State Bond Fund are special, limited obligations of the Agency and are secured solely from pledged State of Vermont Property Transfer Tax Revenues. In the event of default the Bond Trustee may proceed to protect and enforce its rights and the rights of the Bond owners under the Vermont Housing Finance Agency Act, the Vermont Transfer Tax Statute, and the Bonds and Bond Indenture by such suits, actions, or proceedings deemed expedient.

In most cases, interest is payable semi-annually. All bonds are subject to redemption after various dates at par value.

Debt service requirements at June 30, 2019 are as follows (in thousands):

Year ending	Single Family		Multiple Purpose		Multi-Family		Property Transfer Tax		Total	
June 30:	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2020	$ 1,675	1,389	9,990	9,245	1,540	2,243	1,340	1,176	14,545	14,053
2021	1,720	1,339	11,390	9,034	1,368	2,201	1,375	1,144	15,853	13,718
2022	1,725	1,291	10,990	8,765	1,497	2,161	1,410	1,107	15,622	13,324
2023	1,765	1,240	11,210	8,520	1,700	2,114	1,450	1,069	16,125	12,943
2024	1,810	1,187	11,295	8,251	1,575	2,060	1,495	1,028	16,175	12,526
2025-2029	9,675	5,104	58,270	36,186	11,299	9,283	8,210	4,419	87,454	54,992
2030-2034	12,360	3,620	57,200	26,050	13,321	6,926	9,790	2,896	92,671	39,492
2035-2039	13,570	1,985	44,100	15,660	13,117	4,315	9,280	897	80,067	22,857
2040-2044	7,220	328	29,860	8,580	11,607	1,887	—	—	48,687	10,795
2045-2049	—	—	22,835	2,519	3,175	378	—	—	26,010	2,897
2050-2054	—	—	—	—	1,170	53	—	—	1,170	53
Total	$ 51,520	17,483	267,140	132,810	61,369	33,621	34,350	13,736	414,379	197,650

The Agency enters into interest rate swap agreements with counterparties in connection with the Variable Rate Demand Bonds (VRDB). Under the current swap agreement, the swap provider pays the Agency an amount based on 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, 2019, 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**
2020	$ 550	52	61	663
2021	550	42	51	643
2022	450	34	40	524
2023	400	27	31	458
2024	300	21	24	345
2025-2029	1,000	39	45	1,084
Total	$ 3,250	215	252	3,717

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 rate	Variable receivable rate	Fair Value at 6/30/2019
MPB 2013A	BNY Mellon	Aa1/AA-	11/30/2004	$ 3,250	5/1/2029	3.68%	SIFMA + 0.10% or 68% 1mo LIBOR	$ 284
Total				$ 3,250				$ 284

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, 2019, the Agency had outstanding borrowings totaling $3,654,000 which are secured by mortgage loans with a carrying value of $2,791,000 and U.S. Securities with a market value of $1,997,000. In the event of default FHLB may take immediate possession of any collateral. These borrowings have interest rates of 0% and mature from November 2023 through November 2027.

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

The Agency has a $1,000,000 note payable to the MacArthur Foundation at a rate of 1.0%, maturing 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 $2,545,000 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 $26,544,000 in amortizing notes payable to the Federal Financing Bank (FFB). These borrowings have interest rates ranging from 2.24% to 3.65%, and mature from March 2047 to July 2059. The proceeds of these notes were used to finance FHA Risk-Sharing Insured Mortgage Loans. The notes are secured by mortgage loans equal in value to the outstanding notes payable balance.

The Agency is operating under unsecured lines of credit with lending institutions that total $63,160,000 expiring in 2020. At June 30, 2019, there were $15,838,000 of borrowings under the lines at interest rates of 2.66% to 3.54%. 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.

For the Agency's outstanding notes, in the event of default, outstanding principal and accrued interest are immediately due and payable. The FFB notes contain a provision stating that FFB shall have all remedies available at equity and under law.

Future notes payable maturities as of June 30, 2019 are as follows (in thousands):

	Operating		Multi-Family		Total	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
Year ending June 30:						
2020	$ 2,173	755	295	601	2,468	1,356
2021	338	741	16,378	177	16,716	918
2022	353	731	555	43	908	774
2023	368	721	570	28	938	749
2024	2,484	710	585	12	3,069	722
2024 - 2029	3,755	3,372	—	—	3,755	3,372
2029 - 2034	2,742	3,018	—	—	2,742	3,018
2034 - 2039	3,419	2,577	—	—	3,419	2,577
2039 - 2044	4,266	2,024	—	—	4,266	2,024
2044 - 2049	4,777	1,349	—	—	4,777	1,349
2049 - 2054	4,693	709	—	—	4,693	709
2054 - 2059	2,677	103	—	—	2,677	103
2059 - 2059	3	—	—	—	3	—
Total	$ 32,048	16,810	18,383	861	50,431	17,671

A summary of notes payable activity for the year ended June 30, 2019 is as follows (in thousands):

	Beginning balance	Increases	Decreases	Ending balance	Current	Non-current
Line of credit borrowings	$ 13,638	23,740	(21,540)	15,838	—	15,838
Notes payable	33,381	2,260	(1,048)	34,593	2,468	32,125
Total	$ 47,019	26,000	(22,588)	50,431	2,468	47,963

(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 State Property Transfer Tax Revenue 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 $288,000 for the year ended June 30, 2019, and is included in salaries and benefits expense.

(12) Gain on Bond Redemptions

During the year ended June 30, 2019, the Agency redeemed $620,000 of its Single Family Bonds, and $14,270,000 of its Multiple Purpose Bonds PAC and discount bonds prior to scheduled maturity dates. Net gain on PAC and discount bond redemptions was $863,000 and represents the unamortized bond premium and discount balances when the bonds were retired.

(13) Federal Programs

In fiscal year 2019, 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 $5,417,000 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, 2019, the Agency had distributed the full $5,417,000 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, 2019, VHFA had exchanged approximately $1,700,000 of credits for $14,162,000 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 $7,017,000 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 $7,017,000, 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, 2019, VHFA had incurred program expenses of $15,347,000, funded by the $7,017,000 NSP award and $8,485,000 from the sale of rehabilitated houses.

- On May 11, 2011, VHFA signed a memorandum of agreement with the State of Vermont to administer $2,900,000 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 Program noted above. As in NSP-HARP, sales proceeds are recycled to leverage the original $2,900,000 until all funding and program income have been invested. As of June 30, 2019, VHFA had incurred program expenses of $6,181,000, funded by the $2,900,000 NSP-3 award and $3,372,000 from the sale of rehabilitated houses.

- During fiscal year 2019, 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. 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 $2,665,000 in HAP payments under this program during the year ended June 30, 2019.

(14) Commitments and Contingencies

At June 30, 2019, the Agency had outstanding commitments in the amount of $13,556,000 to purchase mortgage loans or mortgage backed securities pursuant to its normal funding from bond proceeds. The Agency also had $10,301,000 of outstanding commitments to purchase securities under the TBA model. In addition, there were commitments of $65,566,000 for multi-family loans and $237,000 for down payment assistance loans.

(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, 2019, $21,070,000 of the bonds were outstanding.

On December 27, 2018, the Agency issued tax-exempt bonds on a conduit basis. The proceeds of the bonds were used for the purpose of (a) financing capital expenditures of a multi-family residential housing facility, (b) refunding the principal amount of Series 2010 bonds (c) repaying a 2010 Taxable Loan and (d) financing certain costs of issuance. The bonds were sold on a private placement basis. As of June 30, 2019, $12,759,000 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 26, 2019 (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.

On July 12, 2019, the Agency signed a Bond Purchase Agreement with TD Bank which allows the Agency to borrow up to $15,000,000 of fixed rate notes to finance multi-family loans.

On July 16, 2019, the Agency issued $24,500,000 of 2019 Series A Multiple Purpose Bonds. In conjunction with this issue, the Agency entered into a new swap agreement with BNY Mellon with a notional amount of $5,000,000.

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