VIRGINIA HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis,
Basic Financial Statements, and
Supplementary Information

June 30, 2016 and 2015

(With Independent Auditors' Reports Thereon)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

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Management of the Virginia Housing Development Authority (Authority) offers readers of its financial report this overview and analysis of the Authority's financial performance for the years ended June 30, 2016 and 2015. Readers are encouraged to consider this information in conjunction with the Authority's basic financial statements, accompanying notes, and supplementary information, which follow this section.

Organization Overview

The Authority is a political subdivision of the Commonwealth of Virginia (Commonwealth), created under the Virginia Housing Development Authority Act (Act) enacted by the General Assembly in 1972, as amended. The Act empowers the Authority to finance the acquisition, construction, rehabilitation, and ownership of affordable housing for home ownership or occupancy by low-or moderate-income Virginians. To raise funds for its mortgage loan operations, the Authority sells tax-exempt and taxable notes and bonds and mortgage backed securities to investors. The notes, bonds, and other indebtedness of the Authority are not obligations of the Commonwealth and the Commonwealth is not liable for repayments of such obligations. Furthermore, as a self-sustaining organization, the Authority does not draw upon the general taxing authority of the Commonwealth. Operating revenues are generated primarily from interest on mortgage loans, program administration fees, and investment income.

In addition to its major mortgage loan programs, the Authority also administers, on a fee basis, various other programs related to its lending activities. Such programs include the Housing Choice Voucher (HCV) program, which provides rental subsidies from federal funds, and the federal Low Income Housing Tax Credit (LIHTC) program, which awards income tax credits for the purpose of developing low-income multi-family housing projects. The Authority also funds Resources Enabling Affordable Community Housing in Virginia (REACH) initiatives, in which grants are made or the interest rates on loans are subsidized by the Authority, principally for the elderly, disabled, homeless, and other low-income persons. The amount of net position used to provide such grants or reduced interest rates on mortgage loans or otherwise subsidize its programs is determined by VHDA's Board of Commissioners. Effective fiscal year 2017 the amount will increase from 20% to 40%, of the average of the Authority's change in net position, as unadjusted for the effect of Governmental Accounting Standards Board (GASB) No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, for the preceding five fiscal years. The amounts made available to provide reduced interest rates on mortgage loans or otherwise provide housing subsidies, including grants, under its programs are subject to review by the Authority of the impact on its financial position. The Authority finances some, but not all, of such subsidized mortgage loans, in whole or in part, with funds under its various bond resolutions.

Financial Statements

The basic financial statements consist of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, the Statements of Cash Flows and the accompanying notes to the financial statements.

The *Statement of Net Position* reports all of the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, presented in order of liquidity and using the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. The difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources is presented as net position, and is displayed in three components: net investment in capital assets; restricted portion of net position; and unrestricted portion of net position. Net position is restricted when external constraints are placed upon their use, such as bond indentures, legal agreements or statutes. Over time, changes in net position may serve as a useful indicator of whether the financial status of the Authority is improving or deteriorating.

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The *Statement of Revenues, Expenses, and Changes in Net Position* identifies all the Authority's revenues and expenses for the reporting period, distinguishing between operating and nonoperating activities. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through mortgage loan income, investment income, externally funded programs and other revenue sources.

The *Statement of Cash Flows* provides information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash transactions, including receipts, payments, and net changes resulting from operations, noncapital financing, capital financing, and investing activities. This statement provides information regarding the sources and uses of cash and the change in cash during the reporting period.

The *Notes to Basic Financial Statements* provide additional information that is essential for understanding financial data that may not be displayed on the face of the financial statements and as such, are an integral part of the Authority's basic financial statements.

Financial Highlights

Overview

The Authority continues to maintain a strong financial position, with a net position of nearly $3.0 billion that grew at a rate of 6.1% over the past twelve months. For the two most recent fiscal years, 2016 and 2015, the Authority has achieved its highest record of earnings, exceeding $170 million per annum. Both Standard & Poor's Ratings Services (Standard & Poor's) and Moody's Investors Services (Moody's) rating agencies continue to rate the Authority with an AA+ issuer credit rating and Aa1 general obligation credit rating, respectively.

In its single family homeownership loan program, the Authority has been able to offer borrowers mortgage loans at affordable interest rates, financed through the issuance of taxable bonds and mortgage-backed securities guaranteed by the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA). Participation in the FNMA Housing Finance Agency (HFA) Preferred Risk Sharing Program has allowed the Authority to finance single family mortgage loans without mortgage insurance and, unlike tax-exempt bonds, permits the funding of refinancing loans and loans to borrowers who are not first time homebuyers. Since the spring of 2015, the Authority has funded up to $17.0 million to provide down-payment assistance grants for qualified first time homebuyers and has offered a new Mortgage Credit Certificate (MCC) program that provides even more tax advantages to low or moderate income borrowers getting single family mortgage loans.

In its rental housing program, the Authority has continued to fund developments through the issuance of tax-exempt and taxable bonds. Tax-exempt financing is stable in both production and deal pipeline, in part due to increased use of REACH funds to make tax-exempt bond funded developments financially feasible. The financing of affordable rental housing projects funded with primarily taxable bonds is also stable. The Authority was recently approved to originate loans using a risk-share program whereby rental housing mortgage loans will be funded through the Federal Financing Bank and insured by the Federal Housing Administration (FHA). The viability of this program is currently under evaluation and if fully implemented, may allow the Authority access to lower cost of capital.

The Authority's servicing efforts for its single family loan portfolio have been focused on working with single family mortgagors experiencing financial difficulties and mitigating potential foreclosure losses. The Authority has continued to offer various options, including loan modifications, to prevent foreclosure for otherwise responsible single family mortgagors encountering financial hardships. While employment levels, wages, and housing values have begun to recover in Virginia, challenges for the Authority's single family mortgagors are expected to continue. Additionally, the Authority has provided substantial support to the Commonwealth's housing policy priorities, and its homeownership education, underwriting and loss mitigation practices continue to help lessen delinquencies and foreclosures.

As part of servicing its multi-family loans, the Authority identifies at-risk developments in order to assess and mitigate the financial risk and to determine the amount to be included in the Authority's Allowance for Loan Loss for such developments. The Authority offers loss mitigation, including loan modifications, to mortgagors to reduce the risk of default and loss on the multi-family loans. As a result, the delinquencies and foreclosures on its multi-family mortgage loans have been maintained at relatively low levels.

While the Authority continues to face challenges from uncertainty in the financial markets affecting interest rates and the overall economic environment, the Authority's capital acquisition initiatives and loss mitigation practices have allowed the Authority to respond with new lending program opportunities and maintain a strong financial position.

Year Ended June 30, 2016

Single family loan originations totaled 5,130 loans for $951.8 million in fiscal year 2016 compared to 3,688 loans for $632.8 million for the same period last year, contributing an increase of 39.1% in units and 50.4% in dollars of mortgage loans. A substantial portion of the increase was related to the down-payment assistance grant program and MCC program introduced in the spring of 2015.

As of June 30, 2016, the Authority serviced 59,465 first and second single family mortgage loans with outstanding balances totaling $5.5 billion. The outstanding balances of loans serviced, increased by $385.1 million or 7.5% and the number of loans serviced increased by 2,444 loans or 4.3%, since June 30, 2015, primarily in the form of FNMA Risk Share mortgage loans and FHA insured mortgage loans that have been pooled into securities guaranteed by GMNA with corresponding uninsured second mortgage loans.

In fiscal year 2016, there were 431 single family foreclosures valued at $50.2 million or 1.4% of the single family loan portfolio, compared to a year ago with 508 foreclosures valued at $59.9 million or 1.6% of loan amounts. Recovery rates averaging 68.1% somewhat mitigated the impact of loan losses. Total delinquency rates on the servicing portfolio based on loan count averaged 10.4% for the fiscal year, compared to 11.4% a year ago. Total delinquency rates on the servicing portfolio based on outstanding mortgage loan balances averaged 9.6% and 10.7% as of June 30, 2016 and 2015, respectively. Delinquencies consist of first mortgage loans over 30 days past due, and foreclosures and bankruptcies.

Financing commitments for 4,489 multi-family housing units were made during the fiscal year, totaling $369.9 million, compared to 4,163 units totaling $353.0 million for the same period a year ago. Recapitalization and rehabilitation of developments within the Authority's existing multi-family portfolio using new taxable and tax-exempt financing and REACH funds provided the majority of the mortgage loan production.

(Continued)

As of June 30, 2016, the Authority serviced 1,255 multi-family mortgage loans with outstanding balances totaling $3.3 billion. Compared to June 30, 2015, the number of loans in the portfolio decreased by 73 while loan balances decreased by $20.9 million or 0.6%. Delinquency rates based on portfolio loan count averaged 0.7% and 0.9% for the fiscal year ended June 30, 2016 and 2015, respectively. The average delinquency rates based on outstanding loan balances were 1.2% or $37.1 million for the fiscal year ended June 30, 2016 compared to 0.2% or $6.9 million for the same period a year ago.

Year Ended June 30, 2015

Single family loan originations totaled 3,688 loans for $632.8 million in fiscal year 2015 compared to 4,398 loans for $756.6 million in fiscal year 2014, for a decrease of 16.1% in units and 16.4% in dollars. The decrease was related to the Rapid Refinance program the Authority offered from July to September in 2013 to allow our interest-only borrowers to refinance into a new 30-year fixed rate loan. Excluding the prior year Rapid Refinance production, which totaled $188.6 million, the Authority's current production increased by $64.8 million or 11.4% compared to prior year normal production without the Rapid Refinance program.

As of June 30, 2015, the Authority serviced 57,021 first and second single family mortgage loans with outstanding balances totaling $5.1 billion. The outstanding balances of mortgage loans serviced, increased by $85.9 million or 1.7% and the number of mortgage loans serviced increased by 840 loans or 1.5%, since June 30, 2014, primarily in the form of FNMA Risk Share mortgage loans and FHA insured mortgage loans with corresponding uninsured second mortgage loans.

In fiscal year 2015, there were 508 foreclosures valued at $59.9 million or 1.6% of the single-family loan portfolio, compared to a year ago with 690 foreclosures valued at $84.4 million or 2.1% of outstanding mortgage loan amounts. Recovery rates averaging 64.6% somewhat mitigated the impact of loan losses. Total delinquency rates on the servicing portfolio based on loan count averaged 11.4% for the fiscal year, compared to 12.2% the prior fiscal year. Total delinquency rates on the servicing portfolio based on outstanding loan balances averaged 10.7% and 11.7% for the year ended June 30, 2015 and 2014, respectively. Delinquencies consist of first mortgage loans over 30 days past due, and foreclosures and bankruptcies.

Financing commitments for 4,163 multi-family housing units were made during the year, totaling $353.0 million, compared to 3,663 units totaling $223.2 million for the same period a year ago. Rehabilitation of properties within the Authority's multi-family portfolio using taxable and tax-exempt funding and REACH funds and preservation of existing mortgage loans through extended period re-financings provided the majority of the production.

As of June 30, 2015, the Authority serviced 1,328 multi-family mortgage loans with outstanding balances totaling $3.4 billion. Compared to June 30, 2014, the number of loans in the portfolio decreased by 50 while loan balances decreased by $29.7 million or 0.9%. Delinquency rates based on portfolio loan count averaged .9% and 1.4% in the year ended June 30, 2015 and 2014, respectively. The average delinquency rates based on outstanding loan balances were 0.2% or $6.9 million for the year ended June 30, 2015 compared to 0.3% or $8.9 million for the same period in the prior fiscal year.

Financial Analysis of the Authority

Cash is held by the trustees and banks in depository accounts and investments for a variety of purposes, including: debt service funds required by bond resolutions, escrow and reserve funds held for the benefit of single-family mortgagors and multi-family developments, funding for new mortgage loan originations, working capital for operating costs of the Authority, governmental funds held for disbursement toward Section 8 developments, and other funds held in a fiduciary capacity to support other housing initiatives. Monies on deposit in banks located in Virginia are collateralized pursuant to the Virginia Security for Public Deposits Act of the Code of Virginia.

Investment objectives are to invest all monies at favorable rates to maximize returns while maintaining short-term liquidity and to manage investments in a prudent manner to enable the Authority to fulfill its financial commitments. Precautions are taken to minimize the risk associated with investments, including monitoring creditworthiness of the investment, as determined by ratings provided by Standard & Poor’s and Moody’s, concentration risk, and maturity risk.

The Authority enters into forward sales transactions to hedge changes in the fair value of mortgage loan inventory and commitments to originate mortgage loans, particularly when such mortgage loans are expected to be pooled into securities guaranteed by GNMA or FNMA. The Authority does not enter into short sales or futures transactions for which a bona fide hedging purpose has not been established.

Mortgage and other loan receivables represent the Authority’s principal assets. Mortgage loans are financed through a combination of proceeds of notes and bonds, GNMA and FNMA guaranteed mortgage loan securitizations, and net position accumulated since inception. Mortgage loan payments received from mortgagors are used to pay debt service due on outstanding bonds and mortgage backed securities.

The largest component of the Authority’s liabilities is outstanding bonds payable, the majority of which is fixed rate to maturity dates that may extend into the future as much as forty years. The Authority continues to maintain strong long-term ratings of Aa1 from Moody’s and AA+ from Standard & Poor’s for its general credit rating as well as all bond resolutions other than the Commonwealth Mortgage Bonds resolution, which is rated Aaa and AAA, by Moody’s and Standard & Poor’s, respectively.

Net position is comprised of net investment in capital assets, restricted and unrestricted portions of net position. *Net investment in capital assets* represents office buildings, land, furniture and equipment, and vehicles, less the outstanding applicable debt. *Restricted portion of net position* represents the portion of net position held in trust accounts for the benefit of the respective bond owners, subject to the requirements of the various bond resolutions. *Unrestricted portion of net position* represents a portion of net position that has been designated for a broad range of initiatives, such as administration of the HCV program, support for REACH initiatives, contributions to bond issues, working capital, future operating and capital expenditures, and general financial support to the Authority’s loan programs.

Condensed Statements of Net Position (unaudited)

(In millions)

		June 30		
		2016	**2015**	**2014**
Cash and cash equivalents	$	1,027.6	629.0	482.4
Investments		512.4	526.5	256.3
Mortgage loans held for sale		174.4	143.8	31.2
Mortgage and other loans receivable, net		6,202.0	6,611.4	7,097.6
Other assets		108.6	130.2	128.9
Total assets		8,025.0	8,040.9	7,996.4
Notes and bonds payable, net		4,765.5	4,963.4	5,089.0
Other liabilities		267.5	257.2	263.8
Total liabilities		5,033.0	5,220.6	5,352.8
Net investment in capital assets		14.4	8.7	6.4
Restricted by bond indentures		2,826.0	2,682.3	2,509.9
Unrestricted		151.6	129.3	127.3
Total net position	$	2,992.0	2,820.3	2,643.6

June 30, 2016 Compared to June 30, 2015

Total assets decreased $15.9 million, or 0.2% from the prior year. Cash and cash equivalents and investments, combined, increased $384.5 million, or 33.3% from the prior year as a result of an increase in the amount of single family loans pooled into mortgage backed securities and held as collateral on a credit facility with the Federal Home Loan Bank of Atlanta. Mortgage loans held for sale and mortgage and other loans receivables, net, decreased by $378.8 million, or 5.6%, primarily the result of securitizations of single family loans through GNMA and FNMA.

Total liabilities decreased $187.6 million, or 3.6% from the prior year. Notes and bonds payable decreased $197.9 million or 4.0%, due primarily to bond redemptions and scheduled principal repayments. For the fiscal year, the Authority issued $234.2 million in rental housing bonds and $291.0 million in commonwealth mortgage bonds. Additionally, $26.0 million of draws and $46.0 million in repayments were made on the notes and lines of credit to net to a $20.0 million pay down for the fiscal year ended. Bond principal pay downs and redemptions totaled $703.1 million, and included bond redemptions of $431.7 million. Proceeds from the rental housing bond group and GNMA and FNMA mortgage loan securitizations were the principal sources of funding for mortgage loan originations.

Total assets exceeded total liabilities by $2,992.0 million, representing an increase in net position of $171.7 million, and a 6.1% return over the preceding twelve months. As of June 30, 2016, net position invested in capital assets, net of related debt, was $14.4 million. Net position restricted by bond resolutions totaled

$2,826.0 million, an increase of $143.7 million, or 5.4% from the prior year. Unrestricted net position totaled $151.6 million, an increase of $22.3 million, or 17.2%.

June 30, 2015 Compared to June 30, 2014

Total assets increased $44.5 million, or 0.6% from the prior year. Cash and cash equivalents and investments, combined, increased $416.8 million, or 56.4% from the prior year. Mortgage loans held for sale and mortgage and other loans receivables, net, decreased by $373.6 million, or 5.2%, primarily as a result of more securitizations of mortgage loans through GNMA and FNMA than the prior year.

Total liabilities decreased $132.2 million, or 2.5% from the prior year. Notes and bonds payable decreased $125.6 million or 2.5%, due primarily to bond redemptions and scheduled principal repayments. For the fiscal year, the Authority issued $212.5 million in Rental Housing Bonds and $120.4 million in Commonwealth Mortgage Bonds. Additionally, $485.6 million of draws and $178.0 million in repayments were made on the notes and lines of credit to net to $307.6 million used for the year ended. Bond principal pay downs and redemptions totaled $766.2 million, and included bond redemptions of $481.1 million. Proceeds from the Rental Housing Bond group, the Commonwealth Mortgage Bond group, and GNMA and FNMA mortgage loan securitizations were the principal sources of funding for mortgage loan originations.

Total assets exceeded total liabilities by $2,820.3 million, representing an increase in net position of $176.7 million, up 6.7% from the prior year. As of June 30, 2015, net position invested in capital assets, net of related debt, was $8.7 million. Net position restricted by bond resolutions totaled $2,682.3 million, an increase of $172.4 million, or 6.9% from the prior year. Unrestricted net position totaled $129.3 million, an increase of $2.0 million, or 1.6%.

Condensed Statements of Revenues, Expenses and Changes in Net Position (unaudited)

(In millions)

		Year ended June 30		
		2016	**2015**	**2014**
Operating revenues:				
Interest on mortgage and other loans	$	371.2	411.0	439.9
Pass-through grants received		117.4	119.1	119.7
Housing Choice Voucher program income		6.2	5.9	9.8
Other operating revenues		59.3	33.9	28.9
Total operating revenues		554.1	569.9	598.3
Operating expenses:				
Interest on notes and bonds payable		178.5	197.4	222.9
Pass-through grants disbursed		117.4	119.1	119.7
Housing Choice Voucher program expense		6.1	8.0	8.7
Other operating expenses		100.4	96.6	125.3
Total operating expenses		402.4	421.1	476.6
Operating income		151.7	148.8	121.7
Nonoperating revenues (expenses):				
Investment income, net		24.7	27.0	13.7
Other nonoperating revenues (expenses)		(4.7)	0.9	(2.6)
Total nonoperating revenues, net		20.0	27.9	11.1
Change in net position	$	171.7	176.7	132.8

The principal determinants of the Authority's change in net position (more commonly referred to as net revenues) are operating revenues less operating expenses plus nonoperating revenues, net.

Operating revenues consist primarily of interest earnings on mortgage loans and operating expenses consist predominantly of interest expense on notes and bonds payable and operating expenses of the Authority. Nonoperating revenues consist of investment income which includes realized and unrealized gains or losses on investments and investment derivatives.

Fiscal Year 2016

Operating revenues decreased $15.8 million or 2.8% from the prior year. The decrease was primarily attributable to interest on mortgage and other loans, which decreased by $39.8 million or 9.7%. Contributing factors were lower mortgage loan balances due to the increase usage of single family loan securitizations and a lower average interest rate of 4.7% on the remaining single family loan balances. The reduction in mortgage interest income was offset by increased revenue from gains on single family loan sales and mortgage servicing income from securitized mortgage loans included in other operating revenues, which increased $25.4 million or 74.9%.

Operating expenses for the fiscal year decreased $18.7 million or 4.4% from the prior year. The decrease was primarily the net effect of a reduction in interest on notes and bonds payable of $18.9 million or 9.6%, due to a decrease in overall debt and a lower average interest rate on the notes and bonds outstanding offset by an increase in other operating expenses of $3.8 million or 3.9%, due primarily to the cost of down-payment assistance grants awarded under the REACH Program.

Nonoperating revenues, net, decreased $7.9 million from the prior year, due to unrealized losses on investment derivatives.

Fiscal Year 2015

Operating revenues decreased $28.4 million or 4.7% from the prior year. The decrease was primarily attributable to interest on mortgage and other loans, which decreased by $28.9 million or 6.6%. Contributing factors were lower mortgage loan balances that resulted from single family loan securitizations and a lower average interest rate on remaining mortgage loan balances.

Operating expenses decreased $55.5 million or 11.6% from the prior year due primarily to interest expense on notes and bonds payable which decreased $25.5 million or 11.4%, due to a lower average interest rate on the notes and bonds outstanding. Other operating expenses decreased $28.7 million or 22.9% over the prior year, primarily due to reductions in the provision for loan losses and lower bond issuance costs from decreased issuances.

Nonoperating revenues, net, increased $16.8 million from the prior year, due to increases in investment income.

Other Economic Factors

The Authority's mortgage loan financing activities are sensitive to the general level of involvement of the federal government in the housing and capital markets, the general level of interest rates, the interest rates and other characteristics of the Authority's mortgage loans compared to mortgage loan products available in the conventional mortgage loan markets, and the availability of affordable housing in the Commonwealth. The availability of long-term tax-exempt and taxable financing on favorable terms and the ability to securitize loans through GNMA and FNMA are key elements in providing the funding necessary for the Authority to continue its mortgage loan financing activities.

The Authority's main sources of revenues include mortgage loan interest and investment interest income. Short-term investment rates in the United States have declined sharply from a peak of approximately 5.0% in February 2007 to 0.2% in June 2016 and in June 2015.

Delinquency and foreclosure rates in the single family mortgage loan portfolio, and to a lesser extent the multi-family mortgage loan portfolio, are influenced by unemployment and underemployment. Virginia's seasonally adjusted unemployment rate was 3.7% and 4.9% in June 2016 and 2015, respectively. Virginia underemployment rates, which include those no longer seeking employment and those employed only part-time who desire full-time work, were 9.3% and 10.0% in the twelve months ended June 30, 2016 and 2015, respectively.

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Additional Information

Questions about this report or additional information can be obtained by visiting the Authority's Web site, www. vhda. com, or contacting the Finance Division of the Authority.

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Independent Auditors' Report

The Board of Commissioners
Virginia Housing Development Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority'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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Housing Development Authority as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and Schedule of Funding Progress by Plan Valuation Date on pages 1–10 and 49 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 audits 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.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information included on Schedules 2 through 5 on pages 50 through 55 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information included in Schedules 2 through 5 on pages 50 through 55 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2016 on our consideration of the Authority'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* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

September 13, 2016

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Statements of Net Position

June 30, 2016 and 2015

Assets	**2016**	**2015**
Current assets:		
Cash and cash equivalents (note 5)	$ 1,027,561,804	628,966,967
Investments (note 5)	2,519,688	53,302,864
Interest receivable – investments	2,013,198	1,627,969
Mortgage loans held for sale (note 1)	174,398,370	143,827,413
Mortgage and other loans receivable, net (note 4)	175,342,656	183,012,480
Interest receivable – mortgage and other loans	28,789,834	30,020,880
Housing Choice Voucher contributions receivable	109,032	372,463
Other real estate owned (note 1)	24,788,006	54,240,173
Other assets	11,987,778	8,977,932
Total current assets	1,447,510,366	1,104,349,141
Noncurrent assets:		
Investments (note 5)	509,853,610	473,202,341
Mortgage and other loans receivable (note 4)	6,242,352,882	6,658,972,508
Less allowance for loan loss	178,122,040	193,855,857
Less net loan discounts	37,540,656	36,688,923
Mortgage and other loans receivable, net	6,026,690,186	6,428,427,728
Property, furniture, and equipment, less accumulated depreciation and amortization of $37,537,944 and $34,357,378 respectively (note 6)	25,375,900	26,326,725
Other assets	15,502,946	8,664,427
Total noncurrent assets	6,577,422,642	6,936,621,221
Total assets	$ 8,024,933,008	8,040,970,362
Liabilities and Net Position		
Current liabilities:		
Notes and bonds payable (note 7)	$ 901,502,903	705,216,781
Accrued interest payable on notes and bonds	48,277,920	57,041,623
Escrows (note 8)	35,264,259	39,851,244
Derivative instruments (note 9)	5,089,335	224,949
Accounts payable and other liabilities (note 10)	40,303,651	18,361,710
Total current liabilities	1,030,438,068	820,696,307
Noncurrent liabilities:		
Bonds payable, net (note 7)	3,864,032,415	4,258,230,476
Project reserves (notes 8 and 14)	118,787,264	123,338,279
Other liabilities (notes 10, 12, and 14)	19,731,990	18,420,214
Total noncurrent liabilities	4,002,551,669	4,399,988,969
Total liabilities	5,032,989,737	5,220,685,276
Net position (notes 1 and 11):		
Net investment in capital assets	14,356,199	8,706,218
Restricted by bond indentures	2,825,966,445	2,682,279,255
Unrestricted	151,620,627	129,299,613
Total net position	2,991,943,271	2,820,285,086
Total liabilities and net position	$ 8,024,933,008	8,040,970,362

See accompanying notes to basic financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

	2016	2015
Operating revenues:		
Interest on mortgage and other loans receivable	$ 371,212,630	410,963,882
Pass-through grant awards (note 1)	117,399,381	119,085,683
Housing Choice Voucher program administrative income (note 1)	6,189,835	5,886,932
Other real estate owned income	7,003,999	8,867,929
Gains and recoveries on sale of other real estate owned	12,161,083	5,019,337
Gains on sale of single family mortgage loans	16,354,541	2,312,605
Mortgage servicing fees net of guaranty fees	13,509,023	9,484,256
Other	10,316,012	8,295,281
Total operating revenues	554,146,504	569,915,905
Operating expenses:		
Interest on notes and bonds payable	178,508,284	197,409,725
Salaries and related employee benefits (notes 12 and 13)	44,042,059	39,697,673
General operating expenses	40,614,966	28,705,689
Note and bond expenses	958,315	1,189,198
Bond issuance expenses	3,701,004	2,133,256
Pass-through grants expenses (note 1)	117,399,381	119,085,683
Housing Choice Voucher program expenses (note 1)	6,099,153	8,005,369
Servicing release premiums and other servicing costs	7,066,536	6,341,372
Other real estate owned expenses	4,732,727	5,925,460
Losses on other real estate owned (note 1)	3,480,731	14,283,486
Provision for loan losses (note 1)	(4,126,638)	(1,705,169)
Total operating expenses	402,476,518	421,071,742
Operating income	151,669,986	148,844,163
Nonoperating revenues (losses):		
Investment income (note 10)	24,651,932	27,016,648
Unrealized gain (loss) on derivative instruments (note 9)	(4,864,386)	562,723
Other, net	200,653	270,490
Total nonoperating revenues, net	19,988,199	27,849,861
Change in net position	171,658,185	176,694,024
Total net position, beginning of year	2,820,285,086	2,643,591,062
Total net position, end of year	$ 2,991,943,271	2,820,285,086

See accompanying notes to basic financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash payments for mortgage and other loans	$ (1,201,553,022)	(861,060,605)
Principal repayments on mortgage and other loans	710,228,720	670,163,200
Sale of mortgage loans	769,109,513	262,061,895
Interest received on mortgage and other loans	355,182,226	384,921,647
Pass-through grant awards received	117,399,381	119,085,683
Pass-through grant awards disbursed	(117,399,381)	(119,085,683)
Housing Choice Voucher payments received	7,022,094	2,883,766
Housing Choice Voucher payments disbursed	(6,879,271)	(5,074,489)
Escrow and project reserve payments received	229,204,165	284,904,286
Escrow and project reserve payments disbursed	(238,341,921)	(286,279,314)
Other operating revenues	51,407,115	25,225,263
Cash received for loan origination fees	4,537,837	5,659,029
Cash paid for loan premiums	(9,033,993)	(5,490,038)
Cash payments for salaries and related benefits	(43,466,252)	(39,402,671)
Cash payments for general operating expenses	(17,520,644)	(26,663,498)
Cash payments for servicing release premiums and guaranty fees	(15,937,010)	(9,480,075)
Proceeds from sale of other real estate owned	47,303,388	35,929,232
Disposition of other real estate owned property	2,271,272	2,942,469
Net cash provided by operating activities	643,534,217	441,240,097
Cash flows from noncapital financing activities:		
Proceeds from issuance of notes and bonds	551,250,012	818,494,857
Principal payments on notes and bonds	(749,091,998)	(944,208,569)
Interest payments on notes and bonds	(187,341,942)	(204,582,334)
Cash payments for bond issuance expenses	(3,701,004)	(2,133,256)
Net cash used in noncapital financing activities	(388,884,932)	(332,429,302)
Cash flows from capital and related financing activities:		
Purchases of property, furniture, and equipment	(2,427,591)	(4,781,779)
Proceeds from the sale of property, furniture and equipment	7,452	—
Net cash used in capital and related financing activities	(2,420,139)	(4,781,779)
Cash flows from investing activities:		
Purchases of investments	(2,775,743)	(2,240,651)
Proceeds from sales or maturities of investments	128,985,736	35,048,337
Interest received on investments	20,155,698	9,696,246
Net cash provided by investing activities	146,365,691	42,503,932
Net increase in cash and cash equivalents	398,594,837	146,532,948
Cash and cash equivalents, at beginning of year	628,966,967	482,434,019
Cash and cash equivalents, at the end year	$ 1,027,561,804	628,966,967

(Continued)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Statements of Cash Flows

Years ended June 30, 2016 and 2015

		2016	2015
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	151,669,986	148,844,163
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation of property, furniture, and equipment		3,372,270	3,031,385
Bond issuance costs		3,701,004	2,133,256
Interest on notes and bonds payable		178,508,284	197,409,725
Increase in mortgage loans held for sale		(30,570,957)	(112,659,513)
Decrease in mortgage and other loans receivable		316,322,126	209,240,046
Decrease in allowance for loan loss		(15,733,817)	(6,046,475)
Increase/(decrease) in net loan discounts		851,733	(3,740,132)
Decrease in interest receivable – mortgage and other loans		1,231,046	2,115,471
Decrease/(increase) in other real estate owned		29,452,167	(3,803,149)
Decrease in Housing Choice Voucher contributions payable		—	(188,369)
Decrease/(increase) in Housing Choice Voucher contributions receivable		263,431	(372,463)
(Increase)/decrease in other assets		(9,848,365)	3,382,222
Increase in accounts payable and other liabilities		23,253,717	2,945,566
Decrease in escrows and project reserves		(8,938,408)	(1,051,636)
Net cash provided by operating activities	$	643,534,217	441,240,097
Supplemental disclosure of noncash activity:			
Increase in other real estate owned as a result of loan foreclosures	$	48,137,291	52,980,121
Decrease in mortgage and other loans receivable from transferring loans to MBS securities retained as investments	$	107,967,324	286,707,136

See accompanying notes to basic financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The Virginia Housing Development Authority (Authority) was created under the Virginia Housing Development Authority Act, as amended (Act) enacted by the 1972 Session of the Virginia General Assembly. The Act empowers the Authority, among other authorized activities, to finance the acquisition, construction, rehabilitation and ownership of housing intended for occupancy or ownership, or both, by families of low or moderate income. Mortgage loans are generally financed by the proceeds of notes, bonds, or other debt obligations of the Authority or by Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA) guaranteed mortgage backed securities (see note 1 (h) below). The notes, bonds and other debt obligations do not constitute a debt or grant or loan of credit of the Commonwealth of Virginia (Commonwealth), and the Commonwealth is not liable for the repayment of such obligations.

For financial reporting purposes, the Authority is a component unit of the Commonwealth. The accounts of the Authority, along with other component units, are combined to form the component units of the Commonwealth. The Authority reports all of its activities as one enterprise fund, in accordance with U.S. generally accepted accounting principles (GAAP). See note 2 for further discussion.

(b) Measurement Focus and Basis of Accounting

The Authority utilizes the economic resources measurement focus and accrual basis of accounting in preparing its basic financial statements where revenues are recognized when earned and expenses when incurred. The accounts are organized on the basis of funds and groups of funds, which are set up in accordance with the Act and the various note and bond resolutions.

(c) Use of Estimates

The preparation of basic financial statements, in conformity with GAAP, requires management to make estimates and judgments that affect reported amounts of assets and liabilities and the disclosures of contingencies at the date of the basic financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

(d) Fair Value Hierarchy

The Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application* during the year ended June 30, 2016. GASB No. 72 provides guidance for determining fair value measurements and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

Fair value measurements not valued at net asset value using the practical expedient are categorized into a three-level hierarchy that priorities the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset. Classification of assets within the

(Continued)

hierarchy considers the markets in which assets are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available.

The levels of the hierarchy are defined as follows:

- Level 1 - Valuation is based on quoted prices (unadjusted) for identical assets in an active market.
- Level 2 - Valuation is based upon quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active and assets valued based on observable market data and market-corroborated inputs for similar instruments.
- Level 3 – Valuation is based upon various techniques that use assumptions that are not observable in the market and are significant to the fair value measurement.

In determining which hierarchy level a financial instrument is classified, the Authority considers all available information, including observable market data and indications of market liquidity. Assets and liabilities that are valued at fair value on a recurring basis include investments, and derivative instruments. Assets that are measured on a non-recurring basis include other real estate owned and mortgage loans held for sale as these are carried at the lower of cost or market.

(e) Investments

Our investments include various debt and asset backed securities which are reported at fair value on the Statements of Net Position, with changes in fair value recognized in investment income in the Statements of Revenues, Expenses, and Changes in Net Position. The fair value of the debt securities are derived from management's review of third party pricing services that use various models that are based on quoted market prices when available or on adjusted values in relation to observable prices on similar investments. The fair value of assets backed securities which include agency-mortgage backed securities are also derived from management's review of third party pricing services that use various models that are based on quoted market prices when available or on adjusted values in relation to observable prices on similar investments.

(f) Derivative Instruments

Forward sales securities commitments are utilized to hedge changes in fair value of mortgage loan inventory and commitments to originate mortgage loans. At June 30, 2016, the Authority had outstanding 33 forward sales transactions with a $421.4 million notional amount with four counterparties with concentrations and ratings (Standard & Poor's, Moody's Investors Service) as shown in note 9. The forward sales contacts will settle by September 21, 2016. These contracts are treated as investment derivative instruments in accordance with Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

(g) Mortgage Loans Held for Sale

Mortgage loans originated or acquired with the intent to sell on the secondary market are carried at the lower of cost or fair value. The fair values of the loans are based on observable market prices for similar instruments traded on the secondary mortgage loan markets. The Authority's portfolio of mortgage loans held for sale is classified as Level 2 in the fair value hierarchy. Any gains or losses on loan sales are reported on the Statements of Revenues, Expenses, and Changes in Net Position.

(h) Mortgage and Other Loans Receivable

Mortgage and other loans receivable are stated at their unpaid principal balance, net of premiums and discounts and an allowance for loan losses. Pricing premiums and discounts are deferred and amortized, using the interest method, over the contractual life of the loans as an adjustment to yield. The interest method is computed on a loan-by-loan basis and any unamortized premiums and discounts on loans fully repaid or restructured are recognized as income in the year in which such loans are repaid or restructured.

The Authority is an authorized issuer of GNMA and FNMA Mortgage-Backed Securities (MBS). Through the MBS programs, GNMA and FNMA guarantee securities that are backed by pools of mortgage loans originated or purchased by the Authority. These mortgage loan securitizations are treated as sales for accounting and reporting purposes. Upon the sale, the Authority no longer recognizes the mortgage loans receivable in the Statements of Net Position.

(i) Allowance for Loan Losses

The Authority provides for losses when a specific need for an allowance is identified. The provision for loan losses charged or credited to operating expense is the amount necessary, in management's judgment, to maintain the allowance at a level it believes sufficient to cover losses in collection of loans. Estimates of future losses involve the exercise of management's judgment and assumptions with respect to future conditions. The principal factors considered by management in determining the adequacy of the allowance are the composition of the loan portfolio, historical loss experience and delinquency statistics, economic conditions, the value and adequacy of collateral, and the current level of the allowance. The allowance for loan losses was reduced by $15,733,817 and $6,046,475 for the years ended June 30, 2016 and 2015, respectively.

(j) Mortgage servicing rights

The Authority pays servicing release premiums when purchasing single family mortgage loans from participating lenders. These premiums are capitalized at cost and amortized over the estimated life of the related mortgage loans, if those mortgage loans are securitized through either GNMA or FNMA while the Authority remains the servicer of the loans. Unamortized mortgage servicing right costs were included in other assets and totaled $9,488,770 and $3,865,139 as of June 30, 2016 and 2015, respectively.

(k) Other Real Estate Owned

Other real estate owned represents current investments in single family dwellings and multi-family developments, acquired primarily through foreclosure, and is stated at the lower of cost or fair value less estimated disposal costs. On a non-recurring basis, the properties' fair values are updated by comparing them to similar properties. The Authority's portfolio of real estate owned is classified as a Level 2 in the fair value hierarchy. Gains and losses from the disposition of other real estate owned are reported separately in the Statements of Revenues, Expenses, and Changes in Net Position.

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(l) Property, Furniture, and Equipment

Capital assets are capitalized at cost and depreciation is provided on the straight-line basis over the estimated useful lives, which are 30 years for buildings, and from 3 to 10 years for furniture and equipment, and 5 years for vehicles. The capitalization threshold for property, furniture, and equipment is $1,000.

Certain costs associated with internally generated computer software are treated as capital assets in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The capitalization threshold for internally generated computer software is $1,000,000. Once the software is ready for its intended use, these costs are amortized on a straight-line basis over the software's expected useful life of 3 to 5 years.

(m) Bond Issuance Expense

In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* bond issuance costs are expensed in the period incurred.

(n) Notes and Bonds Payable

Notes and bonds payable are stated at their unpaid balance less any unamortized premiums or discounts. Bond premiums and discounts are amortized over the lives of the issues using the interest method. The Authority generally has the right to specially redeem bonds, without premium, upon the occurrence of certain specified events, such as the prepayment of a mortgage loan. The Authority also has the right to optionally redeem the various bonds. The optional redemptions generally cannot be exercised until the bonds have been outstanding for approximately ten years. All issues generally have term bonds, which are subject to partial redemption, without premium, from mandatory sinking fund installments.

(o) Retirement Plans

The Authority has three defined contribution retirement savings plans covering substantially all employees. Retirement expense is fully funded as incurred. To the extent terminating employees are less than 100% vested in the Authority's contributions, the unvested portion is forfeited and redistributed to the remaining participating employees.

The Authority also provides postretirement healthcare benefits under a defined benefit plan to all employees who have met the years of service requirement and who retire from the Authority on or after attaining age 55 or become permanently disabled.

(p) Compensated Absences

Authority employees are granted vacation and sick pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination, or death, may be compensated for certain amounts at their then current rates of pay. The amount of vacation and sick pay recognized as expense is the amount earned each year.

(q) Related Party Transactions

The Authority provides split dollar life insurance as a form of compensation to retain talented key associates with the Authority.

(r) Pass-Through Revenues and Expenses

U.S. Department of Housing and Urban Development – Tenant Based Section 8

The Authority serves as an administrator for the U.S. Department of Housing and Urban Development's (HUD) Section 8 Housing Choice Voucher program, consisting of the voucher program as well as other tenant-based assistance programs. The Authority requisitions Section 8 funds, makes disbursements of funds to eligible participants, and recognizes administrative fee income. Program income and program expenses that are recognized as pass-through grants, based upon the amount of allowable Housing Assistance Payments (HAP) disbursements, totaled $65,242,961 and $66,474,251 during the years ended June 30, 2016 and 2015, respectively.

Excess HAP or administrative funds disbursed to the Authority were also recorded as revenue and unrestricted net position in the Statements of Revenues, Expenses and Changes in Net Position and Statements of Net Position. Cumulative deficit of HAP funds totaled $171,202 as of June 30, 2016 and a cumulative excess totaled $39,533 as of June 30, 2015. Cumulative excess administrative funds totaled $622,868 and $361,330 as of June 30, 2016 and 2015, respectively. HUD monitors the utilization of these excess funds and adjusts funding levels prospectively to assure all funds are being used to serve as many families up to the number of vouchers authorized by the program.

U.S. Department of Housing and Urban Development – Project Based Section 8

As the Commonwealth's administrator for HUD's Section 8 New Construction and Substantial Rehabilitation program, the Authority requisitions Section 8 funds, makes disbursements of HAP funds to landlords of eligible multi-family developments, and recognizes administrative fee income.

The Authority received and disbursed pass-through grants totaling $49,106,632 and $51,459,263 during the years ended June 30, 2016 and 2015, respectively. The Authority also received Section 236 Interest Reduction Payments from HUD totaling $2,055,631 and $2,434,809 during the years ended June 30, 2016 and 2015, respectively.

U.S. Department of Housing and Urban Development – Housing Counseling Assistance Program

The Authority serves as an administrator for 30 HUD-approved Housing Counseling Agencies in Virginia. The Housing Counseling Assistance Program provides counseling to consumers on seeking, financing, maintaining, renting, or owning a home. The Authority received and disbursed pass-through grants totaling $865,555 and $866,645 during the years ended June 30, 2016 and 2015, respectively.

National Foreclosure Mitigation Counseling

The Authority is a grantee of NeighborWorks America, a national nonprofit organization created by the U.S. Congress to provide financial support, technical assistance, and training for community-based revitalization efforts. As a grantee in the National Foreclosure Mitigation Counseling program, the

Authority assists nonprofit agencies by distributing NeighborWorks funds administered by the Authority. No activity occurred during the year ended June 30, 2016. The Authority received and disbursed pass-through grants totaling $181,965 during the year ended June 30, 2015.

Emergency Homeowners Loan Program

The Authority is also a grantee of NeighborWorks America, for the Emergency Homeowners Loan Program which provides mortgage payment relief to eligible homeowners experiencing a decrease in income of at least 15%, directly resulting from involuntary unemployment or underemployment due to adverse economic conditions and/or a medical emergency. The Authority received and disbursed assistance of $5,180 and $22,260 during the years ended June 30, 2016 and 2015, respectively.

(s) Commonwealth Priority Housing Fund & Housing Trust Fund

The Commonwealth Priority Housing Fund (Fund), established by the 1988 Session of the Virginia General Assembly, uses funds provided by the Commonwealth in that Session to make loans and grants for a wide variety of housing initiatives. The Virginia Department of Housing and Community Development (DHCD) develops the program guidelines and the Authority acts as administrator for the Fund. The balances associated with the Fund are recorded in assets and liabilities in the amounts of $7,873,353 and $7,155,884 as of June 30, 2016 and 2015, respectively.

The Housing Trust Fund (Trust Fund), established by the 2013 Session of the Virginia General Assembly, uses funds provided by the Commonwealth in that Session to make loans and grants for a wide variety of housing initiatives. DHCD develops the program guidelines and the Authority acts as administrator for the Trust Fund. The balances associated with the Trust Fund are recorded in assets and liabilities in the amounts of $4,030,345 and $991,919 as of June 30, 2016 and 2015, respectively.

(t) Cash Equivalents

Cash equivalents consist of highly liquid short term instruments with original maturities of three months or less from the date of purchase and are recorded at amortized cost.

(u) Rebatable Arbitrage

Rebatable arbitrage involves the investment of proceeds from the sale of tax-exempt debt in a taxable investment that yields a higher rate than the rate of the debt. This results in investment income in excess of interest costs. Federal law requires such income be rebated to the government if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued. Arbitrage must be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes.

(v) Statements of Net Position

The assets presented in the Statements of Net Position represent the total of similar accounts of the Authority's various groups (see note 2). Since the assets of certain of the groups are restricted by the related debt resolutions, the total does not indicate that the combined assets are available in any manner other than that provided for in the resolutions for the separate groups. When both restricted and unrestricted resources are available for use, the Authority's policy is to use restricted resources first, and thereafter unrestricted resources as needed.

(w) Operating and Nonoperating Revenues and Expenses

The Authority's Statements of Revenues, Expenses, and Changes in Net Position distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally arise from financing the acquisition, construction, rehabilitation, and ownership of housing intended for occupancy and ownership, by families of low or moderate income. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(x) Reclassifications

Certain reclassifications have been made in the June 30, 2015 financial statements to conform to the June 30, 2016 presentation.

(2) Basis of Presentation

The accounts of the Authority are presented in a single proprietary fund set of basic financial statements consisting of various programs. The Authority's activities include the following programs:

(a) General Operating Accounts

The General Operating Accounts consist of a group of accounts used to record the receipt of income not directly pledged to the repayment of specific notes and bonds and the payment of expenses related to the Authority's administrative functions.

(b) Rental Housing Bond Groups

The proceeds of the Rental Housing Bonds are used to finance construction and permanent mortgage loans on multi-family housing developments, as well as, temporary financing for other multi-family owned real estate and the financing of the Authority's office facilities.

(c) Commonwealth Mortgage Bond Group

The proceeds of Commonwealth Mortgage Bonds are used to purchase or make long-term mortgage loans to owner occupants of single-family dwellings, as well as, temporary financing for other single-family real estate owned.

(d) Homeownership Mortgage Bond Group

The Homeownership Mortgage Bond group was established to encompass the Authority's participation in the U.S. Department of the Treasury's New Issue Bond Program, which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. The proceeds of Homeownership Mortgage Bonds are used to purchase or make long-term mortgage loans to owner occupants of single family dwellings.

(3) Restricted Assets

Restricted assets are primarily assets held for the benefit of the respective bond owners and include mortgage loans and investments. Certain assets are held on behalf of federal programs or housing initiatives of the Commonwealth.

Restricted assets as of June 30, 2016 and 2015 were as follows:

	June 30	
	2016	**2015**
Restricted current assets:		
Cash and cash equivalents	$ 1,024,267,548	626,822,158
Investments	—	38,051,981
Interest receivable - investments	525,302	177,284
Mortgage loans held for sale	174,398,370	143,827,413
Mortgage and other loans receivable	171,226,583	179,153,217
Interest receivable - mortgage and other loans	28,470,018	29,676,097
Housing Choice Voucher contributions receivable	109,032	372,463
Other real estate owned	23,433,596	52,092,689
Other assets	1,535,427	130,056
Total restricted current assets	1,423,965,876	1,070,303,358
Restricted noncurrent assets:		
Investments	504,898,305	470,335,739
Mortgage and other loans receivable	6,127,447,409	6,551,140,406
Less allowance for loan loss	151,018,087	167,209,042
Less net loan unamortized discounts	37,347,675	36,320,356
Mortgage and other loans receivable, net	5,939,081,647	6,347,611,008
Property, furniture, and equipment, less accumulated depreciation and amortization of $17,911,095 and $17,245,178, respectively	11,799,096	12,495,725
Total restricted noncurrent assets	6,455,779,048	6,830,442,472
Total restricted assets	$ 7,879,744,924	7,900,745,830

(4) Mortgage and Other Loans Receivable

Substantially all mortgage and other loans receivable are secured by first liens on real property within the Commonwealth. The following are the interest rates and typical loan terms by loan program or bond group for the major loan programs:

Loan program/bond group	Interest rates	Initial loan terms
General Operating Accounts	0% to 8.30%	Thirty to forty years
Rental Housing Bond Group	0% to 13.11%	Thirty to forty years
Commonwealth Mortgage Bond Group	0% to 10.61%	Thirty years
Homeownership Mortgage Bond Group	2.00% to 5.88%	Thirty years

Commitments to fund new loans were as follows at June 30, 2016:

	Committed
General Operating Loan Programs	$ 468,307
Rental Housing Bond Group	289,392,227
Commonwealth Mortgage Bond Group	413,647,058
Total	$ 703,507,592

(5) Cash, Cash Equivalents, and Investments

Cash includes cash on hand and amounts in checking accounts, which are insured by the Federal Depository Insurance Corporation or are collateralized under provisions of the Virginia Security for Public Deposits Act. At June 30, 2016 and 2015, the carrying amount of the Authority's deposits was $64,807,340 and $48,488,000, respectively. The associated bank balance of the Authority's deposits was $45,219,355 and $44,263,688 at June 30, 2016 and 2015, respectively. The difference between the carrying amount and the bank balance is due to outstanding checks, deposits in transit, and other reconciling items.

Cash equivalents include investments with original maturities of three months or less from date of purchase. Investments consist of U.S. government and agency securities, municipal tax-exempt securities, corporate notes, reverse repurchase agreements and various other investments for which there are no securities as evidence of the investment. Investments in the bond funds consist of those permitted by the various resolutions adopted by the Authority. At June 30, 2016 and 2015, total cash equivalents were $962,754,464 and $580,478,967, respectively.

(Continued)

Investments as of June 30, 2016 and 2015 are classified in the statements of net position as follows:

	June 30	
	2016	**2015**
Current investments	$ 2,519,688	53,302,864
Noncurrent investments	509,853,610	473,202,341
Total investments	$ 512,373,298	526,505,205

The Investment of Public Funds Act of the Code of Virginia as well as the various bond resolutions establishes permitted investments for the Authority. Within the permitted statutory framework, the Authority's investment policy is to fully invest all monies and maximize the return thereon, by investing and managing investments in a prudent manner that will enable the Authority to fulfill its financial commitments. Approved investments include but are not limited to: direct obligations of the United States of America, direct obligations of any state or political subdivision of the United States of America, obligations unconditionally guaranteed by the United States of America or other political subdivisions, bonds, debentures, certificates of deposit, repurchase agreements, swap contracts, futures contracts, and forward contracts. No more than 3.0% of the Authority's total assets may be invested in any one entity and no more than 10% of the Authority's total assets can be invested in repurchase agreement transactions maturing in less than one month. Such agreements must be collateralized with U.S. Treasury or Agency securities with a market value at least equal to 102% of the principal amount of the agreement.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy is to generally hold all investments to maturity and to limit the length of an investment at purchase, to coincide with expected timing of its use.

(a) Interest Rate Risk

Interest rate risk is the risk that changes in market rates of interest will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates. As a means of communicating interest rate risk, the Authority has elected the segmented time distribution method of disclosure, which requires the grouping of investment cash flows into sequential time periods in tabular form.

As of June 30, 2016, the Authority had the following investments (including cash equivalents) and maturities:

Investment type		Less than 1 year	1 – 5 years	6 – 10 years	Over 10 years	Total
Reverse repurchase agreements	$	500,000,000	—	—	—	500,000,000
Municipal securities		8,146,745	2,692,326	—	—	10,839,071
Asset-backed securities		—	—	—	7,473,311	7,473,311
Agency-mortgage backed securities		—	—	1,107,480	498,580,493	499,687,973
Money market securities		403,379,196	—	—	—	403,379,196
Agency discount notes		49,971,605	—	—	—	49,971,605
Other interest-bearing securities		3,776,606	—	—	—	3,776,606
Total investments	$	965,274,152	2,692,326	1,107,480	506,053,804	1,475,127,762

As of June 30, 2015, the Authority had the following investments (including cash equivalents) and maturities:

Investment type		Less than 1 year	1 – 5 years	6 – 10 years	Over 10 years	Total
Reverse repurchase agreements	$	340,000,000	—	—	—	340,000,000
Municipal securities		8,777,947	2,497,669	—	—	11,275,616
Asset-backed securities		—	—	—	18,109,936	18,109,936
Agency-mortgage backed securities		—	—	1,319,340	451,275,396	452,594,736
Money market securities		228,747,300	—	—	—	228,747,300
Corporate notes		50,023,500	—	—	—	50,023,500
Other interest-bearing securities		6,233,084	—	—	—	6,233,084
Total investments	$	633,781,831	2,497,669	1,319,340	469,385,332	1,106,984,172

On November 13, 2015, the Authority extended a pledge and security agreement with FNMA that requires the Authority to post collateral to secure its repurchase obligations with respect to the HFA Preferred Risk Sharing mortgage loans during the recourse period. The amount of required collateral is $4,100,000 which is equal to 1.10% of the aggregated unpaid principal balance of the HFA Preferred Risk Sharing mortgage loans that the Authority estimates it will sell to FNMA during the contract pooling period expiring on December 31, 2016. To comply with the collateral requirement, the Authority elected to pledge an agency-mortgage backed security valued at $6.0 million and held in trust by a custodian agent for FNMA.

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparties to an investment will not fulfill its obligations. The Authority places emphasis on securities of high credit quality and marketability. The following table presents investment (including cash equivalents) exposure to credit risk by investment type as of June 30, 2016:

Investment type		Amount	S & P/ Moody's rating	Percentage of total investments
Agency-mortgage backed securities	$	499,687,973	Aaa	33.87%
Money market securities		403,379,196	P-1	27.35
Reverse repurchase agreements		300,000,000	BBB-	20.34
Reverse repurchase agreements		200,000,000	Baa2	13.56
Agency discount notes		49,971,605	Aaa	3.39
Municipal securities		5,050,000	NR	0.34
Other interest bearing instruments		3,776,606	Aaa	0.26
Asset-backed securities		2,746,756	Baa3	0.19
Municipal securities		2,207,934	Aaa	0.15
Asset-backed securities		2,042,664	Ca	0.14
Municipal securities		1,796,282	Aa2	0.12
Municipal securities		963,739	Aa1	0.06
Asset-backed securities		880,894	Caa2	0.06
Municipal securities		821,116	Aa3	0.05
Asset-backed securities		810,700	B1	0.05
Asset-backed securities		558,752	A3	0.04
Asset-backed securities		433,545	Caa3	0.03
Total investments	$	1,475,127,762		100.00%

The following table presents investment (including cash equivalents) exposure to credit risk by investment type as of June 30, 2015:

Investment type		Amount	S & P/ Moody's rating	Percentage of total investments
Agency-mortgage backed securities	$	452,594,736	Aaa	40.89%
Reverse repurchase agreements		340,000,000	BBB-	30.71
Money market securities		228,747,300	P-1	20.66
Corporate notes		25,012,750	A1	2.26
Corporate notes		25,010,750	Aa2	2.26
Asset-backed securities		9,745,689	Ba3	0.88
Other interest bearing instruments		6,233,084	Aaa	0.56
Municipal securities		4,692,000	NR	0.42
Municipal securities		3,299,146	Aa2	0.30
Asset-backed securities		2,472,648	Ca	0.22
Asset-backed securities		1,992,761	Caa3	0.18
Asset-backed securities		1,816,286	Caa1	0.17
Municipal securities		1,741,365	Aaa	0.16
Asset-backed securities		1,071,736	Caa2	0.10
Municipal securities		907,968	Aa1	0.08
Asset-backed securities		672,304	A3	0.06
Municipal securities		635,137	AA+	0.06
Asset-backed securities		338,512	Baa3	0.03
Total investments	$	1,106,984,172		100.00%

(c) Fair Value Hierarchy

As of June 30, 2016, the Authority had the following investments (excluding cash equivalents) measured at fair value on a recurring basis using the following fair value hierarchy categories:

		Fair Value Measurement Using:		
Investment type	**6/30/2016**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Agency-mortgage backed securities	$ 499,687,973	—	499,687,973	—
Asset-backed securities	7,473,311	—	7,473,311	—
Municipal securities	5,212,014	—	5,212,014	—
Total investments	$ 512,373,298	—	512,373,298	—

As of June 30, 2015, the Authority had the following investments (excluding cash equivalents) measured using the following fair value hierarchy categories:

		Fair Value Measurement Using:		
Investment type	**6/30/2015**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Agency-mortgage backed securities	$ 452,594,736	—	452,594,736	—
Corporate notes	50,023,500	—	50,023,500	—
Asset-backed securities	18,109,936	—	18,109,936	—
Municipal securities	5,777,033	—	5,777,033	—
Total investments	$ 526,505,205	—	526,505,205	—

(6) Property, Furniture, and Equipment

Activity in the property, furniture, and equipment accounts for the year ended June 30, 2016 was as follows:

		Balance June 30, 2015	Additions	Disposals	Transfers	Balance June 30, 2016
Land	$	2,935,815	—	—	—	2,935,815
Building		31,118,900	—	—	2,383,973	33,502,873
Furniture and equipment		20,352,302	373,474	(104,428)	4,634,069	25,255,417
Motor vehicles		590,331	127,772	(93,422)	—	624,681
Construction in progress		5,686,755	1,926,345	—	(7,018,042)	595,058
	$	60,684,103	2,427,591	(197,850)	—	62,913,844

Activity in the related accumulated depreciation and amortization accounts during the year ended June 30, 2016 was as follows:

		Balance June 30, 2015	Additions	Disposals	Transfers	Balance June 30, 2016
Building	$	(17,532,095)	(1,162,531)	—	223,909	(18,470,717)
Furniture and equipment		(16,342,198)	(2,153,965)	104,428	(223,909)	(18,615,644)
Motor vehicles		(483,085)	(55,774)	87,276	—	(451,583)
	$	(34,357,378)	(3,372,270)	191,704	—	(37,537,944)

Activity in the property, furniture, and equipment accounts for the year ended June 30, 2015 was as follows:

		Balance June 30, 2014	Additions	Disposals	Transfers	Balance June 30, 2015
Land	$	2,935,815	—	—	—	2,935,815
Building		31,118,900	—	—	—	31,118,900
Furniture and equipment		19,610,609	1,145,594	(446,185)	42,284	20,352,302
Motor vehicles		504,786	85,545	—	—	590,331
Construction in progress		2,178,399	3,550,640	—	(42,284)	5,686,755
	$	56,348,509	4,781,779	(446,185)	—	60,684,103

Activity in the related accumulated depreciation and amortization accounts during the year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Disposals	Balance June 30, 2015
Building	$ (16,754,162)	(777,933)	—	(17,532,095)
Furniture and equipment	(14,566,382)	(2,220,656)	444,840	(16,342,198)
Motor vehicles	(450,289)	(32,796)	—	(483,085)
	$ (31,770,833)	(3,031,385)	444,840	(34,357,378)

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2015 and June 30, 2016 and changes for the year ended June 30, 2016 were as follows:

Description	Balance at June 30, 2015	Issued	Retired	Balance at June 30, 2016
		(Amounts shown in thousands)		
General operating accounts:				
Revolving line of credit:				
Bank of America floating daily rate (rate of 1.1603% at June 30, 2016 and 1.2366% at June 30, 2015) termination date of December 1, 2016	$ 57,000	26,000	46,000	37,000
Federal Home Loan Bank varying fixed rate notes with 90 day maturities (average rate of 0.51% at June 30, 2016 and 0.24% at June 30, 2015) maturities range from July 22, 2016 to September 19, 2016	407,600	—	—	407,600
Total general operating				

Description	Balance at June 30, 2015	Issued	Retired	Balance at June 30, 2016
		(Amounts shown in thousands)		
Rental housing bond group:				
2006 Series B, dated October 31, 2006, 4.65% effective interest rate, final due date November 1, 2038	$ 20,800	—	20,800	—
2006 Series C, dated December 12, 2006, 5.80% effective interest rate, final due date January 1, 2039	40,840	—	40,840	—
2006 Series D/E/F, dated December 12, 2006, 4.53% effective interest rate, final due date January 1, 2039	72,550	—	72,550	—
2007 Series A, dated June 12, 2007, 6.03% effective interest rate, final due date July 1, 2039	110,675	—	2,155	108,520
2007 Series B/C, dated September 20, 2007, 6.16% effective interest rate, final due date November 1, 2038	21,225	—	480	20,745
2009 Series A, dated February 26, 2009, 6.80% effective interest rate, final due date March 1, 2039	67,200	—	1,310	65,890
2009 Series B, dated March 26, 2009, 5.54% effective interest rate, final due date June 1, 2043	26,960	—	460	26,500
2009 Series C/D, dated March 30, 2009, 5.81% effective interest rate, final due date February 1, 2021	216,695	—	32,900	183,795
2009 Series E, dated September 24, 2009, 4.74% effective interest rate, final due date October 1, 2044	47,155	—	825	46,330
2009 Series F, dated November 25, 2009, 4.87% effective interest rate, final due date December 1, 2044	45,885	—	795	45,090
2010 Series A, dated March 23, 2010, 4.79% effective interest rate, final due date April 1, 2045	19,665	—	240	19,425

Description		Balance at June 30, 2015	Issued	Retired	Balance at June 30, 2016
			(Amounts shown in thousands)		
2010 Series B, dated April 27, 2010, 4.74% effective interest rate, final due date June 1, 2045	$	21,395	—	380	21,015
2010 Series C, dated July 28, 2010, 4.61% effective interest rate, final due date August 1, 2045		11,240	—	195	11,045
2010 Series D, dated August 26, 2010, 4.31% effective interest rate, final due date September 1, 2040		30,820	—	745	30,075
2010 Series E, dated October 7, 2010, 4.19% effective interest rate, final due date October 1, 2045		36,260	—	725	35,535
2010 Series F, dated December 2, 2010, 4.86% effective interest rate, final due date January 1, 2041,		18,710	—	420	18,290
2011 Series A, dated May 24, 2011, 4.92% effective interest rate, final due date May 1, 2041		10,995	—	240	10,755
2011 Series B, dated September 27, 2011, 4.27% effective interest rate, final due date October 1, 2041		14,460	—	340	14,120
2011 Series C, dated December 8, 2011, 4.24% effective interest rate, final due date December 1, 2038		18,675	—	530	18,145
2011 Series D, dated December 8, 2011, 4.93% effective interst rate, final due date January 1, 2039		146,950	—	3,760	143,190
2011 Series E, dated December 22, 2011, 4.40% effective interest rate, final due date March 1, 2028		133,430	—	8,305	125,125
2012 Series A, dated February 28, 2012, 3.60% effective interest rate, final due date March 1, 2042		33,745	—	860	32,885
2012 Series B, dated August 21, 2012, 3.64% effective interest rate, final due date August 1, 2042		111,885	—	2,650	109,235
2012 Series D, dated October 30, 2012, 4.02% effective interest rate, final due date October 1, 2042		216,830	—	5,125	211,705

Description		Balance at June 30, 2015	Issued	Retired	Balance at June 30, 2016
			(Amounts shown in thousands)		
2012 Series E, dated November 2, 2042, 3.16% effective interest rate, final due date November 1, 2042	$	10,500	—	265	10,235
2013 Series A/B, dated April 11, 2013, 3.95% effective interest rate, final due date April 1, 2043		33,665	—	840	32,825
2013 Series C, dated May 2, 2013, 3.82% effective interest rate, final due date February 1, 2043		159,490	—	3,645	155,845
2013 Series D, dated May 30, 2013, 4.06% effective interest rate, final due date June 1, 2043		109,210	—	2,210	107,000
2013 Series E, dated July 11, 2013, 4.15% effective interest rate, final due date July 1, 2043		20,750	—	250	20,500
2013 Series F, dated October 10, 2013, 4.98% effective interest rate, final due date October 1, 2043		58,435	—	500	57,935
2013 Series G, dated December 3, 2013, 4.38% effective interest rate, final due date December 1, 2043		11,650	—	1,350	10,300
2014 Series A, dated August 19, 2014, 3.75% effective interest rate, final due date August 1, 2049		12,625	—	—	12,625
2014 Series B, dated October 28, 2014, 3.30% effective interest rate, final due date October 1, 2044		8,900	—	—	8,900
2014 Series C, dated November 20, 2014, 4.29% effective interest rate, final due date November 1, 2044		135,515	—	2,750	132,765
2015 Series A, dated March 18, 2015, 3.43% effective interest rate, final due date March 1, 2045		42,165	—	—	42,165
2015 Series B, dated May 12, 2015, 3.32% effective interest rate, final due date May 1, 2045		13,300	—	—	13,300
2015 Series C, dated August 5, 2015, 3.68% effective interest rate, final due date August 1, 2045		—	22,625	—	22,625

(Continued)

Description	Balance at June 30, 2015	Issued	Retired	Balance at June 30, 2016
		(Amounts shown in thousands)		
2015 Series D, dated November 10, 2015, 3.39% effective interest rate, final due date November 1, 2045	$ —	40,635	—	40,635
2015 Series E/F, dated December 8, 2015, 3.94% effective interest rate, final due date December 1, 2045	—	82,385	—	82,385
2016 Series A, dated March 8, 2016, 2.99% effective interest rate, final due date March 1, 2046	—	4,800	—	4,800
2016 Series B, dated May 17, 2016, 3.18% effective interest rate, final due date May 1, 2046	—	83,765	—	83,765
	2,111,250	234,210	209,440	2,136,020
Unamortized premium	2,315			1,859
Total rental housing bonds group	$ 2,113,565			2,137,879
Commonwealth mortgage bonds group:				
2002 Series B, dated March 20, 2002, 6.24% effective interest rate, final due date August 25, 2030	$ 11,779	—	1,368	10,411
2002 Series E/F/G, dated December 17, 2002, 5.19% effective interest rate, final due date December 25, 2032	10,424	—	1,302	9,122
2004 Series B, dated June 10, 2004, 5.68% effective interest rate, final due date June 25, 2034	2,636	—	338	2,298
2006 Series A/B, dated April 27, 2006, 5.89% effective interest rate, final due date March 25, 2036	4,576	—	856	3,720
2006 Series C, dated June 8, 2006, 6.20% effective interest rate, final due date June 25, 2034	17,217	—	3,216	14,001
2006 Series D/E/F, dated July 13, 2006, 4.40% effective interest rate, final due date January 1, 2016	224,310	—	224,310	—

(Continued)

Description	Balance at June 30, 2015	Issued	Retired	Balance at June 30, 2016
	(Amounts shown in thousands)			
2007 Series A/B/C/D, dated May 18, 2007, 4.83% effective interest rate, final due date January 1, 2036	504,475	—	116,950	387,525
2008 Series A, dated March 25, 2008, 6.08% effective interest rate, final due March 25, 2038	34,328	—	7,318	27,010
2008 Series B, dated April 10, 2008, 6.12% effective interest rate, final due date March 25, 2038	49,727	—	7,685	42,042
2008 Series C, dated November 18, 2008, 6.43% effective interest rate, final due date June 25, 2038	20,129	—	3,408	16,721
2009 Series A, dated November 25, 2009, 4.12% effective interest rate, final due date July 1, 2024	32,285	—	7,000	25,285
2012 Series A, dated December 20, 2012, 2.10% effective interest rate, final due date July 1, 2026	74,490	—	—	74,490
2012 Series B/C, dated December 20, 2012, 3.62% effective interest rate, final due date July 1, 2039	702,210	—	15,700	686,510
2013 Series B, dated May 21, 2013, 2.75% effective interest rate, final due date April 25, 2042	76,166	—	12,667	63,499
2013 Series C, dated October 24, 2013, 4.25% effective interest rate, final due date October 25, 2043	94,940	—	5,851	89,089
2013 Series D, dated December 19, 2013, 4.30% effective interest rate, final due date December 25, 2043	73,927	—	5,873	68,054
2014 Series A, dated December 11, 2014, 3.50% effective interest rate, final due date October 25, 2037	112,120	—	14,803	97,317
2015 Series A, dated November 10, 2015, 3.25% effective interest rate, final due date June 25, 2045	—	140,929	8,750	132,179

Description		Balance at June 30, 2015	Issued	Retired	Balance at June 30, 2016
			(Amounts shown in thousands)		
2016 Series A, dated June 9, 2016, 3.10% effective interest rate, final due date June 25, 2041		—	150,111	—	150,111
		2,045,739	291,040	437,395	1,899,384
Unamortized discount		(2,339)			(1,953)
Total commonwealth mortgage bonds group	$	2,043,400			1,897,431
Homeownership mortgage bonds group:					
2010 Series A, dated February 10, 2010, 3.76% effective interest rate, final due date September 1, 2021	$	53,630	—	10,000	43,630
2010 Series B, dated October 29, 2010, 3.10% effective interest rate, final due date March 1, 2022		42,600	—	6,400	36,200
2011 Series A, dated June 14, 2011, 3.58% effective interest rate, final due date March 1, 2024		46,500	—	14,200	32,300
2011 Series B, dated September 27, 2011, 3.41% effective interest rate, final due date September 1, 2024		55,850	—	12,200	43,650
2013 Series A, dated March 27, 2013, 3.25% effective interest rate, final due date August 25, 2042		143,302	—	13,457	129,845
Total homeownership mortgage bonds group		341,882	—	56,257	285,625
Total	$	4,963,447			4,765,535

Notes and bonds payable at June 30, 2014 and June 30, 2015 and changes for the year ended June 30, 2015 were summarized as follows (amounts in thousands):

		June 30, 2014	Issued	Retired	Increase/ (decrease) in unamortized premium/discount and compound interest payable	June 30, 2015
General operating accounts	$	157,000	485,600	(178,000)	—	464,600
Rental housing bond group		2,195,709	212,505	(294,415)	(234)	2,113,565
Commonwealth mortgage bond group		2,339,190	120,390	(416,593)	413	2,043,400
Homeownership mortgage bond group		397,083	—	(55,201)	—	341,882
Total	$	5,088,982	818,495	(944,209)	179	4,963,447

Current and noncurrent amounts of notes and bonds payable at June 30, 2016 and 2015 were as follows:

		June 30	
		2016	2015
Notes and bonds payable – current	$	901,502,903	705,216,781
Bonds payable – noncurrent		3,864,032,415	4,258,230,476
Total	$	4,765,535,318	4,963,447,257

From time to time, the Authority has participated in refundings, in which new debt is issued and the proceeds are used to redeem, generally within ninety days, previously issued debt. Related discounts or premiums previously deferred are recognized in income or expense, respectively. There were no refundings during the years ended June 30, 2016 and 2015. The Authority had redemptions of $431,665,000 and $481,110,000 during the years ended June 30, 2016 and 2015, respectively.

(Continued)

The principal payment obligations and associated interest related to all note and bond indebtedness (excluding the effect of unamortized discounts and premium) commencing July 1, 2016 and thereafter are as follows:

Year ending June 30		Original principal	Current interest	Total debt service
2017	$	901,502,903	175,342,442	1,076,845,345
2018		168,950,000	156,039,081	324,989,081
2019		188,115,000	149,924,488	338,039,488
2020		196,540,000	142,909,339	339,449,339
2021		163,365,000	135,864,949	299,229,949
2022 – 2026		581,430,000	608,499,474	1,189,929,474
2027 – 2031		488,883,096	502,554,624	991,437,720
2032 – 2036		557,409,842	393,721,757	951,131,599
2037 – 2041		573,010,491	254,740,002	827,750,493
2042 – 2046		943,928,652	63,339,235	1,007,267,887
2047 – 2051		2,495,000	207,461	2,702,461
Total	$	4,765,629,984	2,583,142,852	7,348,772,836

The principal payment obligations related to all note and bond indebtedness (excluding the effect of unamortized discounts and premium) commencing July 1, 2016 and thereafter are as follows:

Year ending June 30	General Fund notes	Rental Housing bonds	Commonwealth mortgage bonds	Homeownership mortgage bonds	Total principal
2017	$ 444,600,000	188,130,000	237,782,587	30,990,316	901,502,903
2018	—	84,855,000	63,795,000	20,300,000	168,950,000
2019	—	95,255,000	72,560,000	20,300,000	188,115,000
2020	—	107,180,000	67,160,000	22,200,000	196,540,000
2021	—	86,015,000	55,250,000	22,100,000	163,365,000
2022 – 2026	—	297,470,000	241,080,000	42,880,000	581,430,000
2027 – 2031	—	301,020,000	187,863,096	—	488,883,096
2032 – 2036	—	350,285,000	207,124,842	—	557,409,842
2037 – 2041	—	395,590,000	177,420,491	—	573,010,491
2042 – 2046	—	227,725,000	589,348,783	126,854,869	943,928,652
2047 – 2051	—	2,495,000	—	—	2,495,000
Total	$ 444,600,000	2,136,020,000	1,899,384,799	285,625,185	4,765,629,984

The associated interest related to all note and bond indebtedness commencing July 1, 2016 and thereafter are as follows:

Year ending June 30	General Fund interest	Rental Housing interest	Commonwealth interest	Homeownership interest	Total interest
2017	$ 2,548,275	89,861,614	73,695,999	9,236,554	175,342,442
2018	—	82,246,320	65,378,548	8,414,213	156,039,081
2019	—	78,777,368	63,281,494	7,865,626	149,924,488
2020	—	74,823,288	60,933,425	7,152,626	142,909,339
2021	—	70,493,816	58,963,070	6,408,063	135,864,949
2022 – 2026	—	315,484,809	269,390,134	23,624,531	608,499,474
2027 – 2031	—	252,989,315	228,951,393	20,613,916	502,554,624
2032 – 2036	—	183,726,478	189,381,363	20,613,916	393,721,757
2037 – 2041	—	97,137,317	136,988,768	20,613,917	254,740,002
2042 – 2046	—	19,994,834	38,603,201	4,741,200	63,339,235
2047 – 2051	—	207,461	—	—	207,461
Total	$ 2,548,275	1,265,742,620	1,185,567,395	129,284,562	2,583,142,852

The Authority has a $100 million revolving credit agreement with the Bank of America to provide funds for general corporate purposes. The agreement was renewed on December 1, 2015 and will terminate on December 1, 2016 but may be extended from time to time but in no event later than December 1, 2025. The revolving credit agreement was extended with substantially similar terms. Under the old terms, prior to

December 1, 2015, interest on any advances were charged at a rate equal to the daily floating LIBOR rate for deposits with one month maturity plus a margin ranging from 105 to 135 basis points per annum based upon the Authority's long-term credit ratings. Under the new terms, which started December 1, 2015, interest on any advances is charged at a rate equal to the daily floating LIBOR rate for deposits with one month maturity plus a margin ranging from 70 to 105 basis points per annum based upon the Authority's long-term credit ratings. As of June 30, 2016 and 2015, the borrowing rate was 1.1603% and 1.2366%, respectively. The Authority is in compliance with all debt covenant requirements. At June 30, 2016 and 2015, there were $37.0 million and $57.0 million outstanding, respectively.

The Authority maintains a $1.3 billion credit agreement with the Federal Home Loan Bank (FHLB) of Atlanta, whereby FHLB of Atlanta may advance funds that are secured by cash, mortgage loans and government agency securities held in FHLB of Atlanta as collateral. As of June 30, 2016, there was $6.0 million in cash and $433.4 million in mortgage backed securities pledged to FHLB Atlanta. As of June 30, 2015, there were $18.2 million in cash and $415.9 million mortgage backed securities pledged to FHLB of Atlanta. Interest on any advance can be charged either under a floating daily rate or a fixed rate with a stated maturity not to exceed either one year for daily rate or twenty years for fixed rate loans. As of June 30, 2016 there were eight 90 day fixed rate borrowings: two for $96.6 million at 0.48%, one for $39.0 million at 0.53%, one for $85.0 million at 0.52% and four for a total of $187.0 million at 0.527%. The Authority is in compliance with all debt covenant requirements. At June 30, 2016 and 2015, there were $407.6 million and $407.6 million outstanding, respectively.

(8) Escrows and Project Reserves

Escrows and project reserves represent amounts held by the Authority as escrows for insurance, real estate taxes and completion assurance, and as reserves for replacement and operations (note 14). The Authority invests these funds and, for project reserves, allows earnings to accrue to the benefit of the mortgagor.

At June 30, 2016 and 2015, these escrows and project reserves were presented in the Authority's Statements of Net Position as follows:

		June 30	
		2016	**2015**
Escrows – current	$	35,264,259	39,851,244
Project reserves – noncurrent		118,787,264	123,338,279
Total	$	154,051,523	163,189,523

The Authority also holds escrow funds and unremitted payments for third party investors, including GNMA and FNMA which are required to be held in trust accounts for the investors. These funds are not assets of the Authority and therefore are not included in the Statements of Net Position. At June 30, 2016 and 2015, there were $30.2 million and $29.7 million in these trust accounts, respectively.

(9) Derivative Instruments

The Authority enters into forward sales contracts for the delivery of GNMA and FNMA securities in order to lock in the sales price for the securitization of certain single-family mortgage loans. The contracts offset changes in interest rates between the time of the loan reservations and the securitization of such loans into GNMA and FNMA securities. These contracts are considered investment derivative instruments, such that their change in fair value is reported as investment derivative gains or losses on the Statement of revenues, expenses, and changes in net position. Fair values of the forwards are based on observable market prices for similar instruments traded on the secondary mortgage loan markets. The Authority's portfolio of investment derivatives are classified as Level 2 in the fair value hierarchy.

The outstanding forward contracts, summarized by counterparty rating as of June 30, 2016, were as follows:

Counterparty rating	Count	Par	Concentration	Notional amount	Market value	Fair value asset (liability)
A-1/AA+	11	$ 166,000,000	40.4%	$ 169,521,836	$ 171,443,437	$ (1,921,601)
A-1/AA-	13	140,000,000	34.0	143,191,836	144,922,188	(1,730,352)
A-1/A	8	97,000,000	23.4	99,554,141	100,820,312	(1,266,171)
Baa2/BBB	1	9,000,000	2.2	9,177,539	9,348,750	(171,211)
	33	$ 412,000,000	100.0%	$ 421,445,352	$ 426,534,687	$ (5,089,335)

The outstanding forward contracts, summarized by counterparty as of June 30, 2015, were as follows:

Counterparty rating	Count	Par	Concentration	Notional amount	Market value	Fair value asset (liability)
A-1/AA+	10	$ 129,500,000	54.8%	$ 131,558,625	$ 131,778,516	$ (219,891)
A-1+/AA-	10	84,000,000	35.5	84,316,719	84,463,750	(147,031)
A-1/A	6	12,500,000	5.3	12,659,277	12,667,578	(8,301)
Baa3/BBB	3	10,500,000	4.4	10,581,289	10,431,015	150,274
	29	$ 236,500,000	100.0%	$ 239,115,910	$ 239,340,859	$ (224,949)

(10) Investment Income and Arbitrage Liabilities

The amount of investment income the Authority may earn with respect to certain tax-exempt bond issues in the Commonwealth Mortgage Bond Group, Homeownership Bond Group, and Rental Housing Bond Group, is limited by certain federal legislation. Earnings in excess of the allowable amount must be rebated to the U.S. Department of the Treasury. These excess earnings are recorded in accounts payable and other liabilities. No rebates were paid for the year ended June 30, 2016. Rebates paid were $38,560 for the year ended June 30, 2015. No remaining liability existed for the years ended June 30, 2016 and 2015.

(11) Net Position

Net investment in capital assets, represents property, furniture, and equipment, and vehicles, less the current outstanding applicable debt. Restricted net position represents those portions of the total net position in trust accounts established by the various bond resolutions for the benefit of the respective bond owners. Restricted net position is generally mortgage loans and funds held for placement into mortgage loans, investments, and funds held for scheduled debt service. At the bond resolution level, assets can be released from restriction by bond indentures at any time, subject to the revenue test that requires the assets and future income stream generated by those restricted assets be greater than the funds needed to cover scheduled debt service.

Unrestricted net position represents those portions of the total net position set aside for current utilization and tentative plans for future utilization of such net position. As of June 30, 2016 and 2015, such plans included funds to be available for other loans and loan commitments; for over commitments and over allocations in the various bond issues; for support funds and contributions to bond issues; support for REACH Virginia initiatives and tenant-based housing assistance payments; and for working capital and future operating and capital expenditures. Additional unrestricted net position commitments include maintenance of the Authority's obligation with regard to the general obligation pledge on its bonds; contributions to future bond issues other than those scheduled during the next year; coverage on the uninsured; unsubsidized multi-family conventional loan program; and any unanticipated losses in connection with the uninsured portions of the balance of the single-family and multi-family loans; coverage on the liability exposure of commissioners and officers; the cost of holding foreclosed property prior to resale; costs incurred with the redemption of bonds; single-family loan prepayment shortfalls; and other risks and contingencies.

(12) Employee Benefits Plans

The Authority incurs employment retirement savings expense under two defined contribution plans equal to between 8% and 11% of full-time employees' compensation. Total retirement savings expense for the year ended June 30, 2016 and 2015 was $3,315,748 and $3,048,898, respectively.

The Authority sponsors a deferred compensation plan available to all employees created in accordance with Internal Revenue Section 457(b). The Plan permits participants to defer a portion of their salary or wage until future years. The deferred compensation is not available to employees until termination, retirement, or death. The assets of the Plan are in an irrevocable trust with an external trustee and, accordingly, no assets or liabilities are reflected in the Authority's basic financial statements.

As of June 30, 2016 and 2015, included in other liabilities is an employee compensated absences accrual of $4,489,963 and $4,438,451, respectively (note 14).

(13) Other Post-Employment Benefits

At the sole discretion of the Authority, eligible employees may participate in the Virginia Housing Development Authority Retiree Health Care Plan (RHC Plan), a single-employer defined benefit plan. The Authority administers the RHC Plan through the Virginia Housing Development Authority Retiree Health Care Plan Trust (RHC Trust), an irrevocable trust to be used solely for providing benefits to eligible participants in the RHC Plan. Assets of the RHC Trust are irrevocable and legally protected from creditors and dedicated to providing post-employment reimbursement of eligible medical and dental expenses to

(Continued)

current and eligible future retirees and their spouses in accordance with the terms of the RHC Plan. Employer contributions are recorded in the year in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations.

Effective January 1, 2006, eligible retirees must be at least 55 years of age with 15 years of service, (or at least 55 years of age with 10 years of service if employed by the Authority prior to such date). RHC Plan participants receive an annual benefit based on age and years of service at retirement and based on a matrix, updated annually for cost-of-living plus 2% not to exceed 150% of the annual premium for preferred provider organization medical plan offered that year if the participant is under age 65 or not to exceed 75% of the annual premium if the participant is age 65 or over. The annual benefit may be used to pay for health insurance purchased through the Authority's group plan or elsewhere, and for other eligible medical and dental expenses. For the year ended June 30, 2016, there were approximately 146 participating retirees and spouses and 315 active employees earning service credits in the RHC Plan.

The Authority currently contributes amounts to the RHC Trust sufficient to fully fund the annual required contribution (ARC), an actuarially determined rate in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year plus an amortized amount of unfunded actuarial liabilities (or fund excess) over a period not to exceed thirty years. The ARC for the fiscal year ended June 30, 2016 of $447,787 is approximately 1.56% of covered payroll.

The actuarially determined values for disclosure in accordance with GASB 45 are as follows:

Fiscal year-end	Beginning net OPEB obligation (asset)	ARC	Interest on OPEB liability	ARC adjustment	Amortization factor	Annual OPEB cost
June 30, 2010	$ (106,007)	964,000	(6,625)	5,038	21.04	962,413
June 30, 2011	(39,238)	980,913	(2,452)	1,865	21.04	980,326
June 30, 2012	(8,913)	504,032	(557)	437	21.04	503,912
June 30, 2013	(559,731)	447,428	(34,983)	(26,599)	21.04	439,044
June 30, 2014	(1,237,131)	310,203	(77,321)	60,600	21.04	293,482
June 30, 2015	(2,128,613)	260,642	(133,038)	104,267	21.04	231,871
June 30, 2016	(3,081,704)	447,787	(192,607)	150,952	30.00	406,132

The OPEB cost to the Authority and its contributions and changes in the RHC plan for fiscal years 2010 through 2016 are as follows:

Fiscal year-end		Beginning net OPEB obligation (asset)	Annual OPEB cost	Contribution	Change in net OPEB obligation (asset)	Net OPEB obligation (asset) balance
June 30, 2010	$	(106,007)	962,413	(895,644)	66,769	(39,238)
June 30, 2011		(39,238)	980,325	(950,000)	30,325	(8,913)
June 30, 2012		(8,913)	503,912	(1,054,730)	(550,818)	(559,731)
June 30, 2013		(559,731)	439,044	(1,116,444)	(677,400)	(1,237,131)
June 30, 2014		(1,237,131)	293,482	(1,184,964)	(891,482)	(2,128,613)
June 30, 2015		(2,128,613)	231,871	(1,184,962)	(953,091)	(3,081,704)
June 30, 2016		(3,081,704)	406,132	(1,274,508)	(868,376)	(3,950,080)

For the year ended June 30, 2016, the Authority's Annual OPEB cost was $406,132; the percentage of Annual OPEB Cost Contribution was 313.8%; and the ending Net OPEB asset was $3,950,080. For the year ended June 30, 2015, the Authority's Annual OPEB cost was $231,871; the percentage of Annual OPEB Cost Contribution was 511%; and the ending Net OPEB asset was $3,081,704.

As of December 31, 2015, the unfunded actuarial accrued liability (UAAL) for benefits was ($2,437,247). The covered payroll (annual payroll of active employees covered by the RHC Plan) was $28,623,175 and the ratio of the UAAL to the covered payroll was (8.5%). As of December 31, 2015, the actuarial value of net assets held by the RHC Trust was $24,178,782, the actuarial accrued liability was $21,741,535, and the funded ratio was 111.2%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about mortality and healthcare cost trends. Actuarially determined amounts are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and are subject to continual revisions as actual results are compared with past expectations and revised estimates are made about the future. In the actuarial valuation, the entry age-cost method was used. The actuarial assumptions include a 6.25% long term investment rate of return per annum (compounded annually) and a 3.5% payroll growth rate. The projected healthcare cost trend is 7.5% initially for 2015, reduced by decrements to an ultimate rate of 5.0% after 5 years. The valuation also reflects the impact of the Cadillac tax that will go into effect in 2020. This excise tax has been valued at 40% of the difference between trending claims cost and the excise tax cost threshold and assumes an annual increase of 3.0% in 2020 and thereafter. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The unfunded actuarial accrued liability was amortized over 30 years in calculating the 2015-16 fiscal year annual required contribution.

The required schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(14) Other Long-Term Liabilities

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the year ended June 30, 2016 was as follows:

	Balance at June 30, 2015	Additions	Decreases	Balance at June 30, 2016
Project reserves	$ 123,338,279	32,832,127	37,383,142	118,787,264
Commonwealth Priority Housing Fund liability	7,039,949	57,709	77,454	7,020,204
Other liabilities	6,941,814	8,625,248	7,345,239	8,221,823
Compensated absences payable	4,438,451	2,017,995	1,966,483	4,489,963
Total	$ 141,758,493	43,533,079	46,772,318	138,519,254

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the year ended June 30, 2015 was as follows:

	Balance at June 30, 2014	Additions	Decreases	Balance at June 30, 2015
Project reserves	$ 126,070,113	35,564,860	38,296,694	123,338,279
Commonwealth Priority Housing Fund liability	7,060,825	259,643	280,519	7,039,949
Other liabilities	12,610,639	8,999,352	14,668,177	6,941,814
Compensated absences payable	4,335,802	2,206,382	2,103,733	4,438,451
Total	$ 150,077,379	47,030,237	55,349,123	141,758,493

(15) Troubled Debt Restructuring

Restructuring a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The Authority makes every effort to work with borrowers and grants concessions to debtors if the probability of payment from the debtor increases. As of June 30, 2016 and 2015, the Authority has granted the following concessions to debtors, which are considered troubled debt restructurings. There are no commitments to lend additional resources to debtors who had a troubled debt restructuring.

Single family loans		Year ended June 30 2016	2015
Aggregated recorded balance	$	51,641,833	40,053,029
Number of loans		382	274
Gross interest revenue if loans had been current		2,665,002	2,311,934
Interest revenue included in changes in net position		2,067,688	1,749,901

Multi-family loans		Year ended June 30 2016	2015
Aggregated recorded balance	$	2,452,001	1,338,205
Number of loans		3	3
Gross interest revenue if loans had been current		147,837	81,392
Interest revenue included in changes in net position		65,405	—

(16) Contingencies and Other Matters

Certain claims, suits, and complaints arising in the ordinary course of business have been filed and are pending against the Authority. In the opinion of management, all such matters are adequately covered by insurance or, if not so covered, are without merit or are of such kind or involve such amounts as would not have a material adverse effect on the basic financial statements of the Authority.

The Authority participates in several Federal financial assistance programs, principal of which are the HUD loan guarantee programs. Although the Authority's administration of Federal grant programs has been audited in accordance with the provisions of the United States Office of Management and Budget Circular A-133, these programs are still subject to financial and compliance audits. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time, although the Authority does not expect such amounts, if any, to be material in relation to its basic financial statements.';

The Authority is exposed to various risks of loss such as theft of, damage to, and destruction of assets, injuries to employees, and natural disasters. The Authority carries commercial insurance for these risks. There have been no significant reductions in insurance coverage from coverage in the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

(17) Subsequent Events

In addition to scheduled issuances and redemptions, the Authority made issuances and redemptions of notes and bonds payable subsequent to June 30, 2016 as follows:

	Issue date/ Redemption date		Amount
Issues:			
Rental Housing Bonds 2016 Series C-Non-AMT	July 19, 2016	$	5,000,000
Redemptions:			
Commonwealth Mortgage Bonds 2007 B	July 1, 2016		140,280,000
Commonwealth Mortgage Bonds 2007 C	July 1, 2016		9,550,000
Commonwealth Mortgage Bonds 2007 D	July 1, 2016		9,000,000

Schedule 1

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Required Supplementary Information (unaudited)

Retiree Healthcare Plan – Schedule of Funding Progress by Plan Valuation Date

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability	Unfunded actuarial accrued liability (funded asset)	Funded ratio	Covered payroll	Unfunded (funded) as a percent of covered payroll
December 31, 2008	$ 7,880,680	$ 12,016,655	$ 4,135,975	65.6	$ 21,830,868	18.9%
December 31, 2009	10,333,985	16,280,849	5,946,864	65.6	22,527,041	26.4
December 31, 2010	12,337,427	17,797,668	5,460,241	69.3	22,973,051	23.8
December 31, 2011	13,653,900	15,158,055	1,504,155	90.1	24,701,597	6.1
December 31, 2012	16,224,392	16,302,613	78,221	99.5	25,286,960	0.3
December 31, 2013	20,374,633	16,692,588	(3,682,045)	122.1	26,235,656	(14.0)
December 31, 2014	23,266,870	19,304,555	(3,962,315)	120.5	27,131,030	(14.6)
December 31, 2015	24,178,782	21,741,535	(2,437,247)	111.2	28,623,175	(8.5)

The required schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

As of December 31, 2015, the funded actuarial asset (funded asset) for benefits was $2,437,247. The covered payroll (annual payroll of active employees covered by the RHC Plan) was $28,623,175 and the ratio of the funded asset to the covered payroll was 8.5%. As of December 31, 2015, the actuarial value of net assets held by the RHC Trust was $24,178,782, the actuarial accrued liability was $21,741,535, and the funded ratio was 111.2%. As of June 30, 2016, the RHC Trust had $24,868,467 in net assets. As of June 30, 2015, the RHC Trust had $22,950,203 in net assets.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about mortality and healthcare cost trends. Actuarially determined amounts are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and are subject to continual revisions as actual results are compared with past expectations and revised estimates are made about the future. In the actuarial valuation, the entry age-cost method was used. The December 31, 2015 actuarial assumptions include a 6.25% long term investment rate of return per annum and a 3.5% payroll growth rate. The projected healthcare cost trend is 7.5% initially, reduced by decrements to an ultimate rate of 5.0% after 5 years. The funded asset is being amortized as a level percentage of projected payroll on a closed basis. The funded asset was amortized over 30 years in calculating the fiscal year 2016 ARC.

Schedule 2

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Position

June 30, 2016

Assets		General Operating Accounts	Rental Housing Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Current assets:						
Cash and cash equivalents	$	200,378,029	451,154,850	358,151,227	17,877,698	1,027,561,804
Investments		2,519,688	—	—	—	2,519,688
Interest receivable – investments		1,493,863	184,556	328,694	6,085	2,013,198
Mortgage loans held for sale		—	—	174,398,370	—	174,398,370
Mortgage and other loans receivable, net		4,116,073	76,618,886	83,872,740	10,734,957	175,342,656
Interest receivable – mortgage and other loans		346,823	17,139,914	10,288,894	1,014,203	28,789,834
Housing Choice Voucher contributions receivable		109,032	—	—	—	109,032
Other real estate owned		1,354,410	12,355,501	10,126,141	951,954	24,788,006
Other assets		10,508,513	76,179	1,403,086	—	11,987,778
Total current assets		220,826,431	557,529,886	638,569,152	30,584,897	1,447,510,366
Noncurrent assets:						
Investments		448,451,159	—	61,402,451	—	509,853,610
Mortgage and other loans receivable		127,955,948	3,077,337,684	2,712,763,764	324,295,486	6,242,352,882
Less allowance for loan loss		27,103,953	56,053,336	90,194,989	4,769,762	178,122,040
Less net loan discounts		192,980	37,143,673	(208,737)	412,740	37,540,656
Mortgage and other loans receivable, net		100,659,015	2,984,140,675	2,622,777,512	319,112,984	6,026,690,186
Property, furniture, and equipment, less accumulated depreciation and amortization of $37,537,944		13,576,804	11,799,096	—	—	25,375,900
Other assets		15,502,946	—	—	—	15,502,946
Total noncurrent assets		578,189,924	2,995,939,771	2,684,179,963	319,112,984	6,577,422,642
Total assets	$	799,016,355	3,553,469,657	3,322,749,115	349,697,881	8,024,933,008

(Continued)

Schedule 2

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Position

June 30, 2016

Liabilities and Net Position	**General Operating Accounts**	**Rental Housing Bond Group**	**Commonwealth Mortgage Bond Group**	**Home-ownership Bond Group**	**Total**
Current liabilities:					
Notes and bonds payable	$ 444,600,000	188,130,000	237,782,587	30,990,316	901,502,903
Accrued interest payable on notes and bonds	74,660	27,224,624	18,896,687	2,081,949	48,277,920
Escrows	35,264,259	—	—	—	35,264,259
Derivative instruments	—	—	5,089,335	—	5,089,335
Accounts payable and other liabilities	40,256,650	46,140	861	—	40,303,651
Total current liabilities	520,195,569	215,400,764	261,769,470	33,072,265	1,030,438,068
Noncurrent liabilities:					
Bonds payable, net	—	1,949,748,788	1,659,648,758	254,634,869	3,864,032,415
Project reserves	118,787,264	—	—	—	118,787,264
Other (assets) liabilities	(5,046,884)	24,778,874	—	—	19,731,990
Total noncurrent liabilities	113,740,380	1,974,527,662	1,659,648,758	254,634,869	4,002,551,669
Total liabilities	633,935,949	2,189,928,426	1,921,418,228	287,707,134	5,032,989,737
Net position:					
Net investment in capital assets	13,459,779	896,420	—	—	14,356,199
Restricted by bond indentures	—	1,362,644,811	1,401,330,887	61,990,747	2,825,966,445
Unrestricted	151,620,627	—	—	—	151,620,627
Total net position	165,080,406	1,363,541,231	1,401,330,887	61,990,747	2,991,943,271
Total liabilities and net position	$ 799,016,355	3,553,469,657	3,322,749,115	349,697,881	8,024,933,008

See accompanying independent auditors' report.

Schedule 3

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2016

	General Operating Accounts	Rental Housing Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Operating revenues:					
Interest on mortgage and other loans receivable	$ 4,797,994	204,314,597	146,654,347	15,445,692	371,212,630
Pass-through grant awards	117,399,381	—	—	—	117,399,381
Housing Choice Voucher program administrative income	6,189,835	—	—	—	6,189,835
Other real estate owned income	—	7,003,999	—	—	7,003,999
Gains and recoveries on sale of other real estate owned	278,897	9,903,503	1,867,178	111,505	12,161,083
Gains on sale of single family mortgage loans	1,165,264	—	15,189,277	—	16,354,541
Mortgage servicing fees net of guaranty fees	13,509,023	—	—	—	13,509,023
Other	6,176,092	3,670,877	469,043	—	10,316,012
Total operating revenues	149,516,486	224,892,976	164,179,845	15,557,197	554,146,504
Operating expenses:					
Interest on notes and bonds payable	2,436,451	92,554,743	73,567,721	9,949,369	178,508,284
Salaries and related employee benefits	44,042,059	—	—	—	44,042,059
General operating expenses	40,614,966	—	—	—	40,614,966
Note and bond expenses	335,075	453,693	169,547	—	958,315
Bond issuance expenses	201,500	1,978,720	1,520,784	—	3,701,004
Pass-through grants expenses	117,399,381	—	—	—	117,399,381
Housing Choice Voucher program expenses	6,099,153	—	—	—	6,099,153
Servicing release premiums and other servicing costs	3,769,851	—	3,296,685	—	7,066,536
Other real estate owned expenses	—	4,732,727	—	—	4,732,727
Losses and expenses on other real estate owned	309,967	(32,322)	3,062,075	141,011	3,480,731
Provision for loan losses	917,917	12,996,366	(16,455,959)	(1,584,962)	(4,126,638)
Total operating expenses	216,126,320	112,683,927	65,160,853	8,505,418	402,476,518
Operating income (expense)	(66,609,834)	112,209,049	99,018,992	7,051,779	151,669,986
Nonoperating revenues (expenses):					
Investment income	19,416,651	1,076,032	4,130,739	28,510	24,651,932
Unrealized loss on derivative instruments	—	—	(4,864,386)	—	(4,864,386)
Other, net	200,653	—	—	—	200,653
Total nonoperating revenues, net	19,617,304	1,076,032	(733,647)	28,510	19,988,199
Income (loss) before transfers	(46,992,530)	113,285,081	98,285,345	7,080,289	171,658,185
Transfers between funds	68,942,323	(9,252,881)	(63,462,355)	3,772,913	—
Change in net position	21,949,793	104,032,200	34,822,990	10,853,202	171,658,185
Total net position, beginning of year	143,130,613	1,259,509,031	1,366,507,897	51,137,545	2,820,285,086
Total net position, end of year	$ 165,080,406	1,363,541,231	1,401,330,887	61,990,747	2,991,943,271

See accompanying independent auditors' report.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Position

June 30, 2015

Assets		General Operating Accounts	Rental Housing Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Current assets:						
Cash and cash equivalents	$	189,729,650	192,761,897	230,874,895	15,600,525	628,966,967
Investments		15,250,883	16,792,293	19,897,216	1,362,472	53,302,864
Interest receivable – investments		1,452,821	32,901	139,372	2,875	1,627,969
Mortgage loans held for sale		—	—	143,827,413	—	143,827,413
Mortgage and other loans receivable, net		3,859,263	80,169,750	87,343,720	11,639,747	183,012,480
Interest receivable – mortgage and other loans		373,805	16,854,066	11,611,555	1,181,454	30,020,880
Housing Choice Voucher contributions receivable		372,463	—	—	—	372,463
Other real estate owned		2,147,485	35,842,706	15,376,627	873,355	54,240,173
Other assets		8,791,582	186,350	—	—	8,977,932
Total current assets		221,977,952	342,639,963	509,070,798	30,660,428	1,104,349,141
Noncurrent assets:						
Investments		442,854,817	—	30,347,524	—	473,202,341
Mortgage and other loans receivable		119,620,719	3,152,263,745	3,015,061,695	372,026,349	6,658,972,508
Less allowance for loan loss		26,646,815	43,239,975	117,256,218	6,712,849	193,855,857
Less net loan discounts		368,567	33,757,397	2,101,792	461,167	36,688,923
Mortgage and other loans receivable, net		92,605,337	3,075,266,373	2,895,703,685	364,852,333	6,428,427,728
Property, furniture, and equipment, less accumulated depreciation and amortization of $34,357,378		13,831,000	12,495,725	—	—	26,326,725
Other assets		8,664,427	—	—	—	8,664,427
Total noncurrent assets		557,955,581	3,087,762,098	2,926,051,209	364,852,333	6,936,621,221
Total assets	$	779,933,533	3,430,402,061	3,435,122,007	395,512,761	8,040,970,362

(Continued)

Schedule 4

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Position

June 30, 2015

Liabilities and Net Position	**General Operating Accounts**	**Rental Housing Bond Group**	**Commonwealth Mortgage Bond Group**	**Home-ownership Bond Group**	**Total**
Current liabilities:					
Notes and bonds payable	$ 464,600,000	78,355,000	131,237,777	31,024,004	705,216,781
Accrued interest payable on notes and bonds	32,943	29,840,222	24,675,738	2,492,720	57,041,623
Escrows	39,851,244	—	—	—	39,851,244
Derivative instruments	—	—	224,949	—	224,949
Accounts payable and other liabilities	18,230,218	106,121	25,371	—	18,361,710
Total current liabilities	522,714,405	108,301,343	156,163,835	33,516,724	820,696,307
Noncurrent liabilities:					
Bonds payable, net	—	2,035,209,585	1,912,162,399	310,858,492	4,258,230,476
Project reserves	123,338,279	—	—	—	123,338,279
Other (assets) liabilities	(9,249,764)	27,382,102	287,876	—	18,420,214
Total noncurrent liabilities	114,088,515	2,062,591,687	1,912,450,275	310,858,492	4,399,988,969
Total liabilities	636,802,920	2,170,893,030	2,068,614,110	344,375,216	5,220,685,276
Net position:					
Net investment (deficit) in capital assets	13,831,000	(5,124,782)	—	—	8,706,218
Restricted by bond indentures	—	1,264,633,813	1,366,507,897	51,137,545	2,682,279,255
Unrestricted	129,299,613	—	—	—	129,299,613
Total net position	143,130,613	1,259,509,031	1,366,507,897	51,137,545	2,820,285,086
Total liabilities and net position	$ 779,933,533	3,430,402,061	3,435,122,007	395,512,761	8,040,970,362

See accompanying independent auditors' report.

Schedule 5

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Revenues, Expenses, and Changes in Net Position

Year ending June 30, 2015

	General Operating Accounts	Rental Housing Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Operating revenues:					
Interest on mortgage and other loans receivable	$ 4,712,632	215,257,616	173,472,790	17,520,844	410,963,882
Pass-through grant awards	119,085,683	—	—	—	119,085,683
Housing Choice Voucher program administrative income	5,886,932	—	—	—	5,886,932
Other real estate owned income	—	8,867,929	—	—	8,867,929
Gains and recoveries on sale of other real estate	65,364	12,770	4,605,103	336,100	5,019,337
Gains on sale of single family mortgage loans	—	—	2,312,605	—	2,312,605
Mortgage servicing fees net of guaranty fees	9,484,256	—	—	—	9,484,256
Other	4,976,456	3,162,524	156,301	—	8,295,281
Total operating revenues	144,211,323	227,300,839	180,546,799	17,856,944	569,915,905
Operating expenses:					
Interest on notes and bonds	1,000,476	96,139,785	88,759,384	11,510,080	197,409,725
Salaries and related employee benefits	39,697,673	—	—	—	39,697,673
General operating expenses	28,705,689	—	—	—	28,705,689
Note and bond expenses	430,134	569,062	190,002	—	1,189,198
Bond issuance expenses	100,177	1,393,934	639,145	—	2,133,256
Pass-through grants expenses	119,085,683	—	—	—	119,085,683
Housing Choice Voucher program expenses	8,005,369	—	—	—	8,005,369
Servicing release premiums and other servicing costs	2,019,421	—	4,321,951	—	6,341,372
Other real estate owned expenses	—	5,925,460	—	—	5,925,460
Losses and expenses on other real estate owned	576,655	444,632	13,118,018	144,181	14,283,486
Provision for loan losses	3,033,863	(1,476,694)	(2,786,866)	(475,472)	(1,705,169)
Total operating expenses	202,655,140	102,996,179	104,241,634	11,178,789	421,071,742
Operating income (expense)	(58,443,817)	124,304,660	76,305,165	6,678,155	148,844,163
Nonoperating revenues:					
Investment income	25,209,060	320,366	1,452,740	34,482	27,016,648
Unrealized gain on derivative instruments	—	—	562,723	—	562,723
Other, net	270,490	—	—	—	270,490
Total nonoperating revenues, net	25,479,550	320,366	2,015,463	34,482	27,849,861
Income (loss) before transfers	(32,964,267)	124,625,026	78,320,628	6,712,637	176,694,024
Transfers between funds	37,532,819	31,202,840	(68,870,377)	134,718	—
Change in net position	4,568,552	155,827,866	9,450,251	6,847,355	176,694,024
Total net position, beginning of year	138,562,061	1,103,681,165	1,357,057,646	44,290,190	2,643,591,062
Total net position, end of year	$ 143,130,613	1,259,509,031	1,366,507,897	51,137,545	2,820,285,086

See accompanying independent auditors' report.

KPMG LLP
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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Commissioners
Virginia Housing Development Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated September 13, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

September 13, 2016