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, 2018 and 2017

(With Independent Auditors' Reports Thereon)

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

Table of Contents

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, 2018 and 2017. 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. Revenues are generated primarily from interest on mortgage loans, program administration fees, and investment income.

The Authority participates in the Government National Mortgage Association (GNMA) Mortgage-backed Securities (MBS) programs. Through these MBS programs, the Authority issues GNMA securities which may be held by the Authority or sold to third parties and that are backed by pools of mortgage loans. Once sold, the mortgage loans are no longer assets of the Authority nor pledged to any bond resolution. Each GNMA security represents an undivided ownership interest in a pool of homeownership mortgage loans and carries the full faith and guaranty of the United States (U.S.) government. The GNMA guaranty ensures the owner of the security issued by the Authority receives timely payment of scheduled monthly principal and interest payments at the rate provided by the securities. All mortgage loans under the GNMA MBS programs are insured or guaranteed by the Federal Housing Administration (FHA), the U.S. Department of Agricultural Rural Development, or the Veterans Administration.

The Authority also participates in several Federal National Mortgage Association (FNMA) Mortgage-backed Securities (MBS) programs. The Authority may sell to FNMA homeownership mortgage loans under its whole loan program or it may issue FNMA securities backed by homeownership mortgage loans which securities may be held by the Authority or sold to third parties. Once sold, the mortgage loans are no longer assets of the Authority nor pledged to any bond resolution. The FNMA guaranty ensures the owner of the security issued by the Authority receives timely payment of scheduled monthly principal and interest payments at the rate provided by the securities.

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 rental 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 homeownership or rental housing mortgage loans are subsidized by the Authority, to provide assistance to the elderly, disabled, homeless, and other low-income persons and increase affordable housing opportunities in the Commonwealth. The amount of change in net position each fiscal year used to provide such grants or reduced interest rates on mortgage loans or otherwise subsidize its programs is determined by the Authority's Board of Commissioners. Effective fiscal year 2017 the amount increased 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

(Continued)

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 or mortgage loan securitization programs.

Financial Statements

The basic financial statements consist of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows, and the accompanying notes to the basic financial statements constitute 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 position of the Authority is improving or deteriorating.

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 non-operating 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 financial statements.

Financial Highlights

Overview

The Authority has continued to maintain a strong financial position that grew at a rate of 4.2% over the past twelve months to a total net position of $3.28 billion. 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 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 MBS guaranteed by GNMA and FNMA. Participation in the FNMA Housing Finance Agency (HFA) Preferred Risk Sharing Programs has allowed the Authority to finance homeownership mortgage loans with either no mortgage insurance or private mortgage insurance and, unlike tax-exempt bonds, to permit the funding of refinancing loans and loans to borrowers who are not first time homebuyers. Since inception in the spring of 2015, the Authority has issued more than 10,000 down-payment assistance (DPA) grants valued at over $53 million to assist qualified first time homebuyers and has issued more than 11,000 Mortgage Credit Certificates (MCC) valued at over $460 million to provide even more tax advantages to low or moderate income borrowers getting homeownership mortgage loans.

In its rental housing program, the Authority has continued to fund developments through the issuance of tax-exempt and taxable bonds along with the increased use of REACH funds to make tax-exempt bond funded developments financially feasible. Rental housing financing improved significantly in fiscal year 2018 due to product re-pricing measures, REACH subsidies and a stronger pipeline stimulated by the Authority's bond issues made in December 2017 in response to pending tax legislation potentially eliminating private activity tax-exempt bonds for housing and corresponding 4% low- income housing tax credits. In February 2016, the Authority was approved to originate loans using a federal risk-sharing program whereby rental housing mortgage loans will be insured by FHA and financed through the Federal Financing Bank (FFB). The Authority began to access this lower cost of capital by financing loans with this new risk-sharing/FFB program in fiscal year 2017.

The Authority's servicing efforts for its homeownership loan portfolio have been focused on working with homeownership 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 homeownership mortgagors encountering financial hardships. While employment levels, wages, and housing values have improved in Virginia since the housing market recession, challenges for the Authority's homeownership 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 rental housing 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 rental housing mortgage loans. As a result, the delinquencies and foreclosures on its rental housing 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, 2018

Homeownership mortgage loan originations totaled 7,212 loans for $1,422.0 million in fiscal year 2018 compared to 8,271 loans for $1,620.4 million for fiscal year 2017, a decrease of 12.8% in units and 12.2% in dollars of mortgage loans over the prior year's production levels. The decrease in year over year production was attributed to certain adjustments made to DPA grant guidelines and decreased housing stock available for first time homebuyers.

As of June 30, 2018, the Authority serviced for itself and for third parties a total of 70,130 first and second homeownership mortgage loans with outstanding balances totaling $7.3 billion. Approximately 26,300 of the mortgage loans were serviced for GNMA and FNMA, for which the Authority receives a servicing fee. The outstanding balances of loans serviced, increased by $797.5 million or 12.3% and the number of loans serviced increased by 5,800 loans or 28.2%, since June 30, 2017, primarily in the form of FNMA Risk Share mortgage loans and FHA insured first lien mortgage loans that have been pooled into MBS guaranteed by GMNA and originated with corresponding uninsured second lien mortgage loans.

In fiscal year 2018, there were 357 homeownership mortgage foreclosures valued at $43.6 million or 1.6% of the self-serviced homeownership mortgage loan portfolio, compared to one year ago with 412 foreclosures valued at $45.3 million or 1.4% of loan amounts. Recovery rates averaging 75.8%, representing an improvement of 5.4% over the prior year, somewhat mitigated the impact of loan losses. Total delinquency rates on the servicing portfolio based on loan count averaged 8.8% for the fiscal year, compared to 9.5% a year ago. Total delinquency rates on the servicing portfolio based on outstanding mortgage loan balances averaged 7.4% and 8.3% as of June 30, 2018 and 2017, respectively. Delinquencies consist of first mortgage loans over 30 days past due and foreclosures and bankruptcies.

Financing commitments for 4,648 rental housing units were made during fiscal year 2018, totaling $500.1 million, compared to 1,854 rental housing units totaling $152.7 million for fiscal year 2017. Recapitalization and rehabilitation of developments within the Authority's existing rental housing portfolio using new taxable and tax-exempt financing and REACH funds provided the majority of the rental housing mortgage loan production. The year over year increase was primarily the result of product re-pricing measures and availability of REACH subsidies.

As of June 30, 2018, the Authority serviced 1,179 rental housing mortgage loans with outstanding balances totaling $3.2 billion. Compared to June 30, 2017, the number of loans in the portfolio decreased 30 while loan balances decreased $28.2 million or 0.9%. Delinquency rates based on rental housing portfolio loan count averaged 0.72% and 0.35% for the years ended June 30, 2018 and 2017, respectively. The average delinquency rates based on outstanding mortgage loan balances were 0.56% or $17.4 million for fiscal year 2018 compared to 0.17% or $5.4 million for fiscal year 2017.

Year Ended June 30, 2017

Homeownership mortgage loan originations totaled 8,271 loans for $1,620.4 million in fiscal year 2017 compared to 5,130 loans for $951.8 million for fiscal year 2016, contributing an increase of 61.2% in units and 70.3% in dollars of mortgage loans. A substantial portion of the increase was related to the surge of the DPA and MCC programs since their introduction in the spring of 2015.

As of June 30, 2017, the Authority serviced for itself and for third parties a total of 65,255 first and second homeownership mortgage loans with outstanding balances totaling $6.5 billion. Approximately 20,500 of the mortgage loans are serviced for GNMA and FNMA, for which the Authority receives a servicing fee. The outstanding balances of loans serviced, increased by $987.7 million or 17.9% and the number of loans serviced increased by 5,790 loans or 9.7%, since June 30, 2016, primarily in the form of FNMA Risk Share mortgage loans and FHA insured first lien mortgage loans that have been pooled into MBS guaranteed by GMNA and originated with corresponding uninsured second lien mortgage loans.

In fiscal year 2017, there were 412 homeownership mortgage foreclosures valued at $45.3 million or 1.4% of the homeownership mortgage loan portfolio, compared to a year ago with 431 foreclosures valued at $48.1 million or 1.4% of loan amounts. Recovery rates averaging 70.4%, representing an improvement of 2.3% over the prior year, somewhat mitigated the impact of loan losses. Total delinquency rates on the servicing portfolio based on loan count averaged 9.5% for the fiscal year, compared to 10.4% a year ago. Total delinquency rates on the servicing portfolio based on outstanding mortgage loan balances averaged 8.3% and 9.6% as of June 30, 2017 and 2016, respectively. Delinquencies consist of first mortgage loans over 30 days past due and foreclosures and bankruptcies.

Financing commitments for 1,854 rental housing units were made during the fiscal year, totaling $152.7 million, compared to 4,489 units totaling $369.9 million for fiscal year 2016. Recapitalization and rehabilitation of developments within the Authority's existing rental housing portfolio using new taxable and tax-exempt financing and REACH funds provided the majority of the rental housing mortgage loan production. The year over year decrease was primarily the result of the availability of lower long term interest rates offered by the GSE's which made VHDA's offerings less attractive to borrowers.

As of June 30, 2017, the Authority serviced 1,209 rental housing mortgage loans with outstanding balances totaling $3.2 billion. Compared to June 30, 2016, the number of loans in the portfolio decreased 46 while loan balances decreased $69.3 million or 2.1%. Delinquency rates based on rental housing portfolio loan count averaged 0.35% and 0.69% for the years ended June 30, 2017 and 2016, respectively. The average delinquency rates based on outstanding mortgage loan balances were 0.17% or $5.4 million for fiscal year 2017 compared to 1.15% or $37.1 million for fiscal year 2016.

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 homeownership mortgagors and rental housing 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 homeownership 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, forward 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, HUD risk-share and FFB financing programs, and net position accumulated since inception. Mortgage loan payments received from mortgagors are used to pay debt service due on outstanding bonds and MBS.

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		
		2018	**2017**	**2016**
Cash and cash equivalents	$	875.3	894.3	1,027.6
Investments		596.0	548.6	512.4
Mortgage loans held for sale		162.6	195.2	174.4
Mortgage and other loans receivable, net		5,531.8	5,822.9	6,202.0
Other assets		124.6	131.5	108.6
Total assets	$	7,290.3	7,592.5	8,025.0
Deferred outflows of resources – OPEB	$	2.6	—	—
Notes and bonds payable, net	$	3,746.7	4,198.8	4,765.5
Other liabilities		260.8	242.4	267.5
Total liabilities	$	4,007.5	4,441.2	5,033.0
Deferred inflows of resources – OPEB	$	1.9	—	—
Invested in capital assets, net of related debt	$	12.2	13.5	14.4
Restricted by bond indentures		2,969.7	2,886.0	2,826.0
Unrestricted		301.6	251.8	151.6
Net position	$	3,283.5	3,151.3	2,992.0

June 30, 2018 Compared to June 30, 2017

Total assets decreased $302.2 million, or 4.0% from the prior year. Cash and cash equivalents and investments increased $28.5 million, or 2.0% from the prior year. Mortgage and other loans receivable, net, decreased by $291.1 million, or 5.0%, primarily as a result of securitizations of homeownership loans through GNMA and FNMA.

Total liabilities decreased $433.7 million, or 9.8% from the prior year. Notes and bonds payable decreased $452.1 million or 10.8%, due primarily to bond redemptions and scheduled principal repayments. For the year ended June 30, 2018, the Authority issued a total of $141.8 million of tax-exempt Rental Housing bonds. Bond principal repayments and redemptions during the year totaled $359.9 million of the Commonwealth Mortgage Bond Group, $43.7 million of the Homeownership Mortgage Bond Group, $173.3 million of the Rental Housing Bond Group, and collectively included bond redemptions of $321.4 million. Proceeds from the Bond Groups and from GNMA and FNMA mortgage loan securitizations were the principal sources of funding for mortgage loan originations.

The increase in deferred inflows of resources and deferred outflows of resources as of June 30, 2018 is a result of the Authority's implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Implementation of this new standard did not have a material effect on the Authority's financial statements for the year ended June 30, 2018.

Total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $3,283.5 million, representing an increase in net position of $132.2 million, and a 4.2% return over the preceding twelve months. As of June 30, 2018, net position invested in capital assets, net of related debt, was $12.2 million. Net position restricted by bond resolutions totaled $2,969.7 million, an increase of $83.7 million, or 2.9% from the prior year. Unrestricted net position totaled $301.6 million, an increase of $49.8 million, or 19.8%.

June 30, 2017 Compared to June 30, 2016

Total assets decreased $432.5 million, or 5.4% from the prior year. Cash and cash equivalents and investments decreased $97.1 million, or 6.3% from the prior year to fund debt obligations. Mortgage and other loans receivables, net, decreased by $358.3 million, or 5.6%, primarily as a result of securitizations of homeownership loans through GNMA and FNMA.

Total liabilities decreased $591.8 million, or 11.8% from the prior year. Notes and bonds payable decreased $566.7 million or 11.9%, due primarily to bond redemptions and scheduled principal repayments. For the year ended June 30, 2017, the Authority issued $150.1 million of Commonwealth Mortgage bonds, $60.9 million of Rental Housing bonds and made net draws of $16.7 million on notes and lines of credit. Bond principal repayments and redemptions in the year totaled $889.4 million, and included bond redemptions of $507.6 million. Proceeds from the Bond Groups and from GNMA and FNMA mortgage loan securitizations were the principal sources of funding for mortgage loan originations.

Total assets exceeded total liabilities by $3,151.3 million, representing an increase in net position of $159.3 million, and a 5.3% return over the preceding twelve months. As of June 30, 2017, net position invested in capital assets, net of related debt, was $13.5 million. Net position restricted by bond resolutions totaled $2,886.0 million, an increase of $60.0 million, or 2.1% from the prior year. Unrestricted net position totaled $251.8 million, an increase of $100.2 million, or 66.1%.

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

(In millions)

	Year ended June 30		
	2018	2017	2016
Operating revenues:			
Interest on mortgage and other loans	$ 313.5	333.8	371.2
Pass-through grants received	115.6	117.9	117.4
Housing Choice Voucher program income	8.1	6.8	6.2
Other operating revenues	68.1	64.3	59.3
Total operating revenues	505.3	522.8	554.1
Operating expenses:			
Interest on notes and bonds payable	136.5	153.2	178.5
Pass-through grants disbursed	115.6	117.9	117.4
Housing Choice Voucher program expense	8.2	6.9	6.1
Other operating expenses	125.7	103.1	100.4
Total operating expenses	386.0	381.1	402.4
Net operating income	119.3	141.7	151.7
Nonoperating revenues:			
Investment income	15.5	11.0	24.7
Unrealized gain/(loss) on derivatives	(2.6)	6.4	(4.9)
Other nonoperating revenues	—	0.2	0.2
Total nonoperating revenues	12.9	17.6	20.0
Change in net assets	$ 132.2	159.3	171.7

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 other operating expenses of the Authority. Nonoperating revenues primarily consist of investment income which includes realized and unrealized gains or losses on investments and investment derivatives.

Fiscal Year 2018

Operating revenues decreased $17.5 million or 3.4% from the prior year. The primarily factor was the decrease in interest on mortgage and other loans of $20.3 million or 6.1%, due to lower mortgage loan balances and increased usage of homeownership loan securitizations.

Operating expenses for the year increased $4.9 million or 1.3% from the prior year. The increase was primarily the result of other operating expenses which increased $22.6 million or 21.9%, due to year over year provision for loan losses.

Nonoperating revenues, net, decreased by $4.7 million or 26.7% from the prior year, primarily as a result of unrealized losses on investment derivatives in the current year, partially offset by higher investment income.

Fiscal Year 2017

Operating revenues decreased $31.3 million or 5.7% from the prior year. The decrease was primarily attributable to interest on mortgage and other loans, which decreased by $37.4 million or 10.1%. Contributing factors were lower mortgage loan balances due to the increase usage of homeownership loan securitizations and an average interest rate of 4.3% on the remaining homeownership loan balances, a rate 0.4 percentage points lower than the prior year.

Operating expenses for the year decreased $21.3 million or 5.3% from the prior year. The decrease was primarily the result of a reduction in interest on notes and bonds payable of $25.3 million or 14.2%, due to a reduction in overall debt and a lower average interest rate on the notes and bonds outstanding. Other operating expenses increased $2.7 million or 2.7%, due to primarily to DPA and other REACH grant awards and MCC incentive expenses.

Nonoperating revenues, net, decreased by $2.4 million or 12.1% from the prior year, primarily as a result of lower investment income in the current year, partially offset by higher unrealized gains on investment derivatives.

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 mortgage loan market, 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, gains on sale of mortgage loans and mortgage servicing fees. Short-term investment rates in the United States have begun to improve slightly to 1.77% in June 2018 from 0.84% in June 2017.

Delinquency and foreclosure rates in the homeownership loan portfolio, and to a lesser extent the rental housing loan portfolio, are influenced by unemployment and underemployment. Virginia's seasonally adjusted unemployment rate was 3.2% and 3.7% in June 2018 and 2017, respectively. Virginia underemployment rates, which include those no longer seeking employment and those employed only part-time who desire full-time work, were 7.2% and 8.4% in the twelve months ended June 30, 2018 and 2017, respectively.

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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements for the years then ended 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 Authority'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 Authority'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, 2018 and 2017, 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 Management's Discussion and Analysis, Retiree Healthcare Plan – Schedule of Changes in the Net OPEB Liability and Related Ratios, Retiree Healthcare Plan – Schedule of Contributions, and Retiree Healthcare Plan – Schedule of Funding Progress by Plan Valuation Date (GASB 45) on pages 2 through 10 and 54 through 56 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 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 4 through 7 on pages 57 through 62 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Schedule of Net Position – June 30, 2018, Combining Schedule of Revenues, Expenses, and Changes in Net Position – Year Ended June 30, 2018, Combining Schedule of Net Position – June 30, 2017, and Combining Schedule of Revenues, Expenses, and Changes in Net Position – Year Ended June 30, 2017 are the responsibility of management and were derived from and relate 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 4 through 7 on pages 57 through 62 are 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, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

Richmond, Virginia
September 13, 2018

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
Statements of Net Position
June 30, 2018 and 2017

Assets		**2018**	**2017**
Current assets:			
Cash and cash equivalents (note 5)	$	875,347,516	894,272,781
Interest receivable – investments		3,121,431	2,224,714
Derivative instruments (note 10)		-	1,274,922
Mortgage loans held for sale (note 1)		162,588,442	195,208,735
Mortgage and other loans receivable (note 4)		158,078,162	156,689,172
Interest receivable – mortgage and other loans		23,959,295	25,147,446
Other real estate owned (note 1)		14,267,834	27,027,600
Other assets		8,416,567	7,971,466
Total current assets		1,245,779,247	1,309,816,836
Noncurrent assets:			
Investments (note 5)		596,052,986	548,601,866
Mortgage and other loans receivable (note 4)		5,568,986,594	5,857,891,631
Less allowance for loan loss (note 1)		157,761,429	154,336,393
Less net loan discounts		37,473,390	37,394,679
Mortgage and other loans receivable, net		5,373,751,775	5,666,160,559
Property, furniture, and equipment, less accumulated depreciation and amortization of $37,907,294 and $35,095,820 respectively (note 6)		22,603,035	24,134,987
Mortgage servicing rights, net (note 1)		34,632,275	25,426,265
Other assets		17,551,381	18,290,333
Total noncurrent assets		6,044,591,452	6,282,614,010
Total assets		7,290,370,699	7,592,430,846
Deferred outflows of resources			
Other post-employment benefits - change in assumptions (note 1)		2,573,591	-
Liabilities			
Current liabilities:			
Notes and bonds payable (note 7)		576,393,288	768,564,253
Accrued interest payable on notes and bonds		30,633,334	36,595,554
Escrows (note 9)		33,652,835	33,695,294
Derivative instruments (note 10)		1,357,461	-
Accounts payable and other liabilities (note 11)		18,832,737	25,031,826
Total current liabilities		660,869,655	863,886,927
Noncurrent liabilities:			
Bonds payable, net (note 7)		3,170,287,045	3,430,214,929
Project reserves (notes 9 and 15)		128,015,652	113,864,723
Loan participation payable to Federal Financing Bank (note 8)		23,449,353	10,804,167
Other liabilities (notes 11, 13, and 15)		24,848,644	22,393,696
Total noncurrent liabilities		3,346,600,694	3,577,277,515
Total liabilities		4,007,470,349	4,441,164,442
Deferred inflows of resources			
Other post-employment benefits - difference between expected and actual experience (note 1)		207,681	-
Other post-employment benefits - difference between projected and actual earnings (note 1)		1,729,015	-
Total deferred inflows of resources		1,936,696	-
Net position			
Net investment in capital assets (notes 1 and 12)		12,235,695	13,498,563
Restricted by bond indentures (notes 1 and 12)		2,969,696,479	2,885,941,948
Unrestricted (notes 1 and 12)		301,605,071	251,825,893
Total net position	$	3,283,537,245	3,151,266,404

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, 2018 and 2017

		2018	2017
Operating revenues:			
Interest on mortgage and other loans receivable	$	313,515,686	333,805,796
Pass-through grant awards (note 1)		115,634,605	117,946,339
Housing Choice Voucher program administrative income (note 1)		8,144,611	6,798,165
Other real estate owned income		1,835,562	3,938,973
Gains and recoveries on sale of other real estate owned		4,485,482	7,107,832
Gains on sale of single family mortgage loans		21,147,087	24,588,598
Mortgage servicing fees net of guaranty fees		30,137,033	20,751,322
Other		10,506,135	7,901,718
Total operating revenues		505,406,201	522,838,743
Operating expenses:			
Interest on notes and bonds payable		136,499,308	153,203,844
Salaries and related employee benefits (notes 13 and 14)		55,490,578	48,000,730
General operating expenses		43,907,209	47,611,538
Note and bond expenses		362,860	943,472
Bond issuance expenses		2,069,765	1,552,559
Pass-through grants expenses (note 1)		115,634,605	117,946,339
Housing Choice Voucher program expenses (note 1)		8,195,612	6,871,301
Servicing release premiums and other servicing costs		11,827,779	10,694,748
Other real estate owned expenses		1,344,848	2,656,861
Losses on other real estate owned (note 1)		2,138,776	7,550,170
Provision for loan losses (note 1)		8,586,343	(15,946,595)
Total operating expenses		386,057,683	381,084,967
Operating income		119,348,518	141,753,776
Nonoperating revenues (losses):			
Investment income (note 11)		15,542,398	11,030,920
Unrealized gain (loss) on derivative instruments (note 10)		(2,632,383)	6,364,257
Other, net		12,308	174,180
Total nonoperating revenues, net		12,922,323	17,569,357
Change in net position		132,270,841	159,323,133
Total net position, beginning of year		3,151,266,404	2,991,943,271
Total net position, end of year	$	3,283,537,245	3,151,266,404

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, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash payments for mortgage and other loans	$ (1,865,420,464)	(1,923,794,301)
Principal repayments on mortgage and other loans	743,349,399	715,293,031
Sale of mortgage loans	1,301,666,242	1,408,079,567
Interest received on mortgage and other loans	322,424,251	342,550,186
Pass-through grant awards received	115,634,605	117,946,339
Pass-through grant awards disbursed	(115,634,605)	(117,946,339)
Housing Choice Voucher payments received	8,653,015	7,754,978
Housing Choice Voucher payments disbursed	(8,342,935)	(7,731,023)
Escrow and project reserve payments received	257,591,771	222,520,649
Escrow and project reserve payments disbursed	(243,483,300)	(229,010,380)
Other operating revenues	68,441,897	62,472,564
Cash received for loan origination fees and loan discounts	3,044,625	2,552,332
Cash paid for loan origination fees and loan premiums	(14,089,576)	(17,766,998)
Cash payments for salaries and related benefits	(54,151,084)	(46,770,369)
Cash payments for general operating expenses	(48,373,834)	(71,940,650)
Cash payments for servicing release premiums and guaranty fees	(29,093,091)	(32,123,841)
Proceeds from sale of other real estate owned	48,118,432	38,636,521
Disposition of other real estate owned property	490,715	1,282,108
Net cash provided by operating activities	490,826,063	472,004,374
Cash flows from noncapital financing activities:		
Proceeds from issuance of notes and bonds	202,795,003	322,688,524
Proceeds from loan particiaption - FFB	12,875,000	10,804,167
Principal payments on notes and bonds	(653,925,769)	(889,359,755)
Principal payments on loan participation - FFB	(229,814)	-
Interest payments on notes and bonds	(143,429,610)	(164,971,114)
Cash payments for bond issuance expenses	(2,069,766)	(1,552,558)
Net cash used in noncapital financing activities	(583,984,956)	(722,390,736)
Cash flows from capital and related financing activities:		
Purchases of property, furniture, and equipment	(1,789,280)	(2,266,246)
Proceeds from the sale of property, furniture and equipment	750	-
Net cash used in capital and related financing activities	(1,788,530)	(2,266,246)
Cash flows from investing activities:		
Proceeds from sales or maturities of investments	47,217,671	97,000,893
Interest received on investments	28,804,487	22,362,692
Net cash provided by investing activities	76,022,158	119,363,585
Net decrease in cash and cash equivalents	(18,925,265)	(133,289,023)
Cash and cash equivalents, at beginning of year	894,272,781	1,027,561,804
Cash and cash equivalents, at end of year	$ 875,347,516	894,272,781

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

Statements of Cash Flows

Years ended June 30, 2018 and 2017

		2018	2017
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	119,348,518	141,753,776
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation of property, furniture, and equipment		3,316,889	3,507,159
Bond issuance costs		2,069,765	1,552,558
Interest on notes and bonds payable		136,499,308	153,203,844
Decrease/(increase) in mortgage loans held for sale		32,620,293	(20,810,365)
Decrease in mortgage and other loans receivable		178,860,164	258,527,673
Increase/(decrease) in allowance for loan loss		3,425,036	(23,785,647)
Increase/(decrease) in net loan discounts		78,711	(145,977)
Decrease in interest receivable – mortgage and other loans		1,188,151	3,642,388
Decrease/(increase) in other real estate owned		12,759,766	(2,239,594)
Increase in mortgage servicing rights		(9,206,010)	(15,937,495)
Decrease (increase) in other assets		293,851	(8,150,813)
Increase in OPEB deferred outflows of resources		(2,573,591)	-
Increase in OPEB deferred inflows of resources		1,936,696	-
Decrease in accounts payable and other liabilities		(3,744,141)	(12,610,118)
Increase/(Decrease) in escrows and project reserves		13,952,657	(6,503,015)
Net cash provided by operating activities	$	490,826,063	472,004,374
Supplemental disclosure of noncash activity:			
Increase in other real estate owned as a result of loan foreclosures	$	40,417,598	47,368,260
Decrease in mortgage and other loans receivable from transferring loans to MBS securities retained as investments	$	108,655,883	144,587,062

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)). 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) Adoption of New Accounting Standards

During the fiscal year ended June 30, 2018, the Authority adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB): Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; Statement No. 81, *Irrevocable Split-Interest Agreements*; Statement No. 85, *Ominbus 2017*; and Statement No. 86, *Certain Debt Extinguishment Issues*. Implementation of GASB Statement No. 81 and 86 had no impact on the Authority's fiscal year 2018 financial statements. The Authority's implementation of GASB Statement Nos. 75 and 85 did not have a material impact on the Authority's fiscal year 2018 financial statements or upon adoption, but did result in additional disclosures and a change in accounting and financial reporting for the Authority's participation in the Authority's other postemployment benefit plan which is discussed in Note 1(p) and Note 14 to the basic financial statements.

(d) 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

(e) Fair Value Hierarchy

Fair value measurements not valued at net asset value using the practical expedient are categorized into a three-level hierarchy that prioritizes 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 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 fair value.

(f) Investments

Investments include various debt and asset backed securities which are reported at fair value in 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 is 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 asset 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.

(g) 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, 2018, the Authority had outstanding 61 forward sales transactions with a $381.0 million notional amount with four counterparties with concentrations and ratings (Standard & Poor’s, Moody’s Investors Service) as shown in note 10. At June 30, 2017, the Authority had outstanding 61 forward sales transactions with a $407.5 million notional amount with four counterparties with concentrations and ratings (Standard & Poor’s, Moody’s Investors Service). The 2018 forward sales contacts will settle by September 20, 2018. These contracts are treated as investment derivative instruments.

(h) Mortgage Loans Held for Sale

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.

Mortgage loans originated or acquired with the intent to sell through the MBS programs 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 in the Statements of Revenues, Expenses, and Changes in Net Position.

(i) 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 are recognized as income in the year in which such loans are repaid.

(j) Allowance for Loan Losses

The Authority provides for expected 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 its mortgage 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, the value and adequacy of collateral, and economic conditions.

The allowance for loan losses was increased by $3,425,036 for the year ended June 30, 2018 and reduced by $23,785,647 for the year ended June 30, 2017.

		Year ended June 30	
		2018	2017
Beginning balance, July 1	$	154,336,393	178,122,040
Provision:			
Homeownership		6,268,541	(4,048,902)
Rental housing		2,317,802	(11,897,693)
Provision		8,586,343	(15,946,595)
Net (charge-offs)/recoveries			
Homeownership		(5,682,822)	(8,117,946)
Rental housing		521,515	278,894
Net charge-offs		(5,161,307)	(7,839,052)
Net change		3,425,036	(23,785,647)
Ending Balance, June 30	$	157,761,429	154,336,393

(k) Mortgage servicing rights

The Authority pays mortgage servicing release premiums when purchasing homeownership mortgage loans from participating lenders. These premiums are capitalized at cost and amortized over the estimated life of the related mortgage loans when those mortgage loans are securitized through either GNMA or FNMA and the Authority remains the servicer of the loans. Estimated life is determined to be 7 years.

(l) Other Real Estate Owned

Other real estate owned represents current investments in homeownership dwellings and rental housing 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, fair values of the real properties are assessed 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.

(m) 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 accounted for as capital assets. The capitalization threshold for internally generated computer software is $1,000,000. Once

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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.

(n) Bond Issuance Expense

Bond issuance costs are expensed in the period incurred.

(o) 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.

(p) Retirement Plans and Other Postemployment Benefit 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 administered through a trust 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. Effective for the plan year ended December 31, 2017, the Authority adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and the Authority adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the fiscal year ended June 30, 2018. For purposes of measuring the net OPEB liability, deferred outflows or inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Virginia Housing Development Authority Retiree Health Care Plan (the Plan) and additions to or deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognized benefit payments when due and payable in accordance with the benefit terms of the Plan. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost, which approximates fair value.

(q) 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.

(r) Related Party Transactions

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

(s) 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 $70,220,663 and $68,182,644 during the years ended June 30, 2018 and 2017, 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 excess HAP funds totaled $329,370 as of June 30, 2018. Cumulative deficit of HAP funds totaled $158,185 as of June 30, 2017. Cumulative excess administrative funds totaled $327,528 and $536,715 as of June 30, 2018 and 2017, respectively. HUD monitors the utilization of these excess funds and adjusts funding levels prospectively to assure all funds are being used to serve families up to the maximum number of vouchers authorized for 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 makes requisitions of 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 $44,559,827 and $47,757,647 during the years ended June 30, 2018 and 2017, respectively. The Authority also received and disbursed Section 236 Interest Reduction Payments from HUD totaling $238,998 and $923,463 during the years ended June 30, 2018 and 2017, respectively.

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

The Authority serves as an administrator for 36 HUD-approved Housing Counseling Agencies in the Commonwealth. 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 $615,116 and $1,078,418 during the years ended June 30, 2018 and 2017, respectively.

(t) 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 $7,693,336 and $6,676,053 as of June 30, 2018 and 2017, 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 $8,747,807 and $6,536,114 as of June 30, 2018 and 2017, respectively.

(u) 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.

(v) 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 U.S. 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. For financial reporting purposes the potential liability is calculated annually.

(w) 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.

(x) 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.

(y) Deferred Outflows of Resources and Deferred Inflows of Resources

The Authority reports deferred outflows of resources and deferred inflows of resources on its statement of net position. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense) until the applicable period. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until a future period. See Note 14 for further discussion regarding deferred outflows of resources and deferred inflows of resources associated with the Authority's other postemployment benefits plan

(z) Reclassifications

Certain reclassifications have been made in the June 30, 2017 financial statements to conform to the June 30, 2018 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 Group

The proceeds of the Rental Housing Bonds are used to finance construction and permanent mortgage loans on rental housing developments, as well as, temporary financing for other rental housing real estate owned 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 homeownership dwellings, as well as, temporary financing for other homeownership 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 homeownership 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, 2018 and 2017 were as follows:

	June 30	
	2018	**2017**
Restricted current assets:		
Cash and cash equivalents	$ 867,628,544	885,020,949
Interest receivable – investments	1,241,088	576,348
Derivative instruments	—	1,274,922
Mortgage loans held for sale	162,588,442	195,208,735
Mortgage and other loans receivable	152,264,919	151,643,029
Interest receivable – mortgage and other loans	23,298,377	24,754,035
Other real estate owned	9,714,413	23,649,446
Other assets	146,839	230,623
Total restricted current assets	1,216,882,622	1,282,358,087
Restricted noncurrent assets:		
Investments	592,494,611	544,766,590
Mortgage and other loans receivable	5,401,560,848	5,719,720,809
Less allowance for loan loss	115,731,451	114,713,749
Less net loan discounts	37,334,619	37,229,271
Mortgage and other loans receivable, net	5,248,494,778	5,567,777,789
Property, furniture, and equipment, less accumulated depreciation and amortization of $19,264,915 and $18,568,481 respectively	10,406,033	11,102,467
Total restricted noncurrent assets	5,851,395,422	6,123,646,846
Total restricted assets	$ 7,068,278,044	7,406,004,933

(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 10.38%	Thirty years
Homeownership Mortgage Bond Group	2.00% to 5.88%	Thirty years

Commitments to fund new loans were as follows at June 30, 2018:

		Committed
General Operating Loan Programs	$	300,000
Rental Housing Bond Group		379,251,139
Commonwealth Mortgage Bond Group		297,131,420
Total	$	676,682,559

(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, 2018 and 2017, the carrying amount of the Authority's deposits was $38,524,754 and $55,638,042, respectively. The associated bank balance of the Authority's deposits was $34,032,466 and $47,531,151 at June 30, 2018 and 2017, 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, repurchase agreements, asset-backed securities, agency-mortgage backed securities, money market securities and other interest-bearing securities held at the FHLB Atlanta. Investments in the bond funds consist of those permitted by the various resolutions adopted by the Authority. At June 30, 2018 and 2017, total cash equivalents were $836,822,762 and $838,634,739, respectively.

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 U.S. government, direct obligations of any state or political subdivision of the U.S. government, obligations unconditionally guaranteed by the U.S. government 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, excluding obligations issued or guaranteed by the U.S. government and repurchase agreement transactions. However, repurchase agreements cannot be no more than 10% of the Authority's total assets and must mature in less than one month. Such agreements must be collateralized with U.S. Treasury or Agency securities with a fair 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, 2018, 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
U.S. government and agency	$	253,899,811	—	—	—	253,899,811
Repurchase agreements		360,000,000	—	—	—	360,000,000
Asset-backed securities		—	—	—	3,558,375	3,558,375
Agency-mortgage backed securities		—	—	643,640	591,850,971	592,494,611
Money market securities		199,802,926	—	—	—	199,802,926
Other interest-bearing securities		23,120,025	—	—	—	23,120,025
Total investments	$	836,822,762	—	643,640	595,409,346	1,432,875,748

As of June 30, 2017, 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
U.S. government and agency	$	84,843,304	-	-	-	84,843,304
Repurchase agreements		475,000,000	-	-	-	475,000,000
Asset-backed securities		-	-	-	3,835,276	3,835,276
Agency-mortgage backed		-	-	845,922	543,920,668	544,766,590
Money market securities		259,328,107	-	-	-	259,328,107
Other interest-bearing		19,463,328	-	-	-	19,463,328
Total investments	$	838,634,739	-	845,922	547,755,944	1,387,236,605

On December 18, 2017, 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 $59.0 million through December 31, 2018, compared to $27.0 million required collateral a year ago. To comply with the collateral requirement, the Authority elected to pledge agency-mortgage backed securities valued at $59.9 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, 2018:

	Amount	S & P/ Moody's rating	Percentage of total investments
Agency-Mortgage Backed Securities	$ 592,494,611	Aaa	41.35 %
Repurchase Agreements	360,000,000	BBB-	25.12
US Government & Agency	253,899,811	Aaa	17.72
Money Market Securities	195,568,689	P-1	13.65
Other Interest-Bearing Instruments	23,120,025	Aaa	1.61
Money Market Securities	4,000,000	NR	0.28
Asset-Backed Securities	2,034,805	Ca	0.14
Asset-Backed Securities	671,666	Caa2	0.05
Asset-Backed Securities	360,128	A3	0.03
Asset-Backed Securities	298,301	Caa3	0.02
Money Market Securities	234,237	Aaa-mf	0.02
Asset-Backed Securities	193,475	Baa3	0.01
Total investments	$ 1,432,875,748		100.00 %

The following table presents investment (including cash equivalents) exposure to credit risk by investment type as of June 30, 2017:

	Amount	S & P/ Moody's rating	Percentage of total investments
Agency-Mortgage Backed Securities	$ 544,766,590	Aaa	39.26 %
Repurchase Agreements	475,000,000	BBB-	34.24
Money Market Securities	255,209,496	P-1	18.40
US Government & Agency	84,843,304	Aaa	6.12
Other Interest-Bearing Instruments	19,463,328	Aaa	1.40
Money Market Securities	4,000,000	NR	0.29
Asset-Backed Securities	2,050,979	Ca	0.15
Asset-Backed Securities	716,640	Caa2	0.05
Asset-Backed Securities	458,769	A3	0.03
Asset-Backed Securities	369,324	Caa3	0.03
Asset-Backed Securities	239,564	Baa3	0.02
Money Market Securities	118,611	Aaa-mf	0.01
Total investments	$ 1,387,236,605		100.00 %

(c) Fair Value Hierarchy

As of June 30, 2018, the Authority had the following investments (excluding cash equivalents) measured at fair value on a recurring basis using the following fair value hierarchy categories:

Investment type		June 30, 2018	Fair value measurement using: 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	$	592,494,611	-	592,494,611	-
Asset-backed securities		3,558,375	-	3,558,375	-
Total investments	$	596,052,986	-	596,052,986	-

As of June 30, 2017, the Authority had the following investments (excluding cash equivalents) measured using the following fair value hierarchy categories:

Investment type		June 30, 2017	Fair value measurement using: 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	$	544,766,590	-	544,766,590	-
Asset-backed securities		3,835,276	-	3,835,276	-
Total investments	$	548,601,866	-	548,601,866	-

(6) Property, Furniture, and Equipment

Activity in the property, furniture, and equipment accounts for the year ended June 30, 2018 was as follows:

		Balance June 30, 2017	Additions	Disposals	Transfers	Balance June 30, 2018
Land	$	2,935,815	-	-	-	2,935,815
Building		38,080,738	47,620	-	133,260	38,261,618
Furniture and equipment		17,014,419	1,122,729	(435,155)	920,613	18,622,606
Motor vehicles		665,469	23,210	(74,603)	-	614,076
Construction in process		534,366	595,721	-	(1,053,873)	76,214
	$	59,230,807	1,789,280	(509,758)	-	60,510,329

Activity in the related accumulated depreciation and amortization accounts during the year ended June 30, 2018 was as follows:

		Balance June 30, 2017	Additions	Disposals	Transfers	Balance June 30, 2018
Building	$	(20,183,489)	(1,321,623)	-	-	(21,505,112)
Furniture and equipment		(14,393,292)	(1,919,833)	430,812	-	(15,882,313)
Motor vehicles		(519,039)	(75,433)	74,603	-	(519,869)
	$	(35,095,820)	(3,316,889)	505,415	-	(37,907,294)

Activity in the property, furniture, and equipment accounts for the year ended June 30, 2017 was as follows:

		Balance June 30, 2016	Additions	Disposals	Transfers/ reclassification	Balance June 30, 2017
Land	$	2,935,815	-	-	-	2,935,815
Building		33,502,873	68,987	-	4,508,878	38,080,738
Furniture and equipment		25,255,417	730,650	(5,949,188)	(3,022,460)	17,014,419
Motor vehicles		624,681	40,788	-	-	665,469
Construction in process		595,058	1,425,726	-	(1,486,418)	534,366
	$	62,913,844	2,266,151	(5,949,188)	-	59,230,807

Activity in the related accumulated depreciation and amortization accounts during the year ended June 30, 2017 was as follows:

		Balance June 30, 2016	Additions	Disposals	Transfers	Balance June 30, 2017
Building	$	(18,470,717)	(1,105,425)	-	(607,347)	(20,183,489)
Furniture and equipment		(18,615,645)	(2,334,276)	5,949,282	607,347	(14,393,292)
Motor vehicles		(451,581)	(67,458)	-	-	(519,039)
	$	(37,537,943)	(3,507,159)	5,949,282	-	(35,095,820)

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2017 and June 30, 2018 and changes for the year ended June 30, 2018 were as follows:

Description	Balance at June 30, 2017	Issued	Retired	Balance at June 30, 2018
		(Dollars in thousands)		
General operating accounts:				
Revolving line of credit:				
Bank of America floating daily rate termination date of December 1, 2018	$ 16,000	61,000	77,000	-
Federal Home Loan Bank varying fixed rate notes with 90-day maturities (average of 1.97% at June 30, 2018 and 1.05% at June 30, 2017), maturities range from July 11, 2018 to September 13, 2018	445,300	-	-	445,300
Total general operating accounts	$ 461,300	61,000	77,000	445,300

Description	Balance at June 30, 2017	Issued	Retired	Balance at June 30, 2018
		(Dollars in thousands)		
Rental housing bond group:				
2009 Series A, dated February 26, 2009, 6.80% effective interest rate, final due date March 1, 2039	$ 64,515	-	1,450	63,065
2009 Series B, dated March 26, 2009, 5.54% effective interest rate, final due date June 1, 2043	26,025	-	495	25,530
2009 Series C/D, dated March 30, 2009, 4.53% effective interest rate, final due date November 1, 2018	149,140	-	130,030	19,110
2009 Series E, dated September 24, 2009, 4.74% effective interest rate, final due date October 1, 2044	45,485	-	875	44,610
2009 Series F, dated November 25, 2009, 4.87% effective interest rate, final due date December 1, 2044	44,275	-	845	43,430
2010 Series A, dated March 23, 2010, 4.79% effective interest rate, final due date April 1, 2045	19,180	-	250	18,930
2010 Series B, dated April 27, 2010, 4.74% effective interest rate, final due date June 1, 2045	20,625	-	400	20,225
2010 Series C, dated July 28, 2010, 4.61% effective interest rate, final due date August 1, 2045	10,845	-	205	10,640
2010 Series D, dated August 26, 2010, 4.31% effective interest rate, final due date September 1, 2040	29,315	-	775	28,540
2010 Series E, dated October 7, 2010, 4.19% effective interest rate, final due date October 1, 2045	34,790	-	760	34,030
2010 Series F, dated December 2, 2010, 4.86% effective interest rate, final due date January 1, 2041	17,865	-	440	17,425
2011 Series A, dated May 24, 2011, 4.92% effective interest rate, final due date May 1, 2041	10,505	-	255	10,250
2011 Series B, dated September 27, 2011, 4.27% effective interest rate, final due date October 1, 2041	13,775	-	350	13,425
2011 Series C, dated December 8, 2011, 4.24% effective interest rate, final due date December 1, 2038	17,610	-	545	17,065
2011 Series D, dated December 8, 2011, 4.93% effective interst rate, final due date January 1, 2039	139,350	-	3,935	135,415

(Continued)

Description		Balance at June 30, 2017	Issued	Retired	Balance at June 30, 2018
			(Dollars in thousands)		
2012 Series A, dated February 28, 2012, 3.60% effective interest rate, final due date March 1, 2042	$	32,015	-	880	31,135
2012 Series B/C, dated August 21, 2012, 3.64% effective interest rate, final due date August 1, 2042		106,555	-	2,715	103,840
2012 Series D dated October 30, 2012, 4.02% effective interest rate, final due date October 1, 2042		206,535	-	5,225	201,310
2012 Series E dated November 2, 2042, 3.16% effective interest rate, final due date November 1, 2042		9,970	-	270	9,700
2013 Series AB dated April 11, 2013, 3.95% effective interest rate, final due date April 1, 2043		31,980	-	850	31,130
2013 Series C dated May 2, 2013, 3.82% effective interest rate, final due date February 1, 2043		152,085	-	3,880	148,205
2013 Series D dated May 30, 2013, 4.06% effective interest rate, final due date June 1, 2043		104,705	-	2,385	102,320
2013 Series E dated July 11, 2013, 4.15% effective interest rate, final due date July 1, 2043		20,000	-	505	19,495
2013 Series F dated October 10, 2013, 4.98% effective interest rate, final due date October 1, 2043		56,745	-	1,200	55,545
2013 Series G dated December 3, 2013, 4.39% effective interest rate, final due date December 1, 2043		10,080	-	225	9,855
2014 Series A dated August 19, 2014, 3.75% effective interest rate, final due date August 1, 2049		12,520	-	220	12,300
2014 Series B dated October 28, 2014, 3.30% effective interest rate, final due date October 1, 2044		8,795	-	215	8,580
2014 Series C dated November 20, 2014, 4.29% effective interest rate, final due date November 1, 2044		129,800	-	2,985	126,815
2015 Series A dated March 18, 2015, 3.50% effective interest rate, final due date March 1, 2045		38,660	-	935	37,725
2015 Series B dated May 12, 2015, 3.44% effective interest rate, final due date May 1, 2045		11,550	-	320	11,230

(Continued)

Description	Balance at June 30, 2017	Issued	Retired	Balance at June 30, 2018
		(Dollars in thousands)		
2015 Series C dated August 5, 2015, 3.68% effective interest rate, final due date August 1, 2045	$ 22,625	-	350	22,275
2015 Series D dated November 10, 2015, 3.55% effective interest rate, final due date November 1, 2045	40,385	-	6,100	34,285
2015 Series E/F dated December 8, 2015, 3.94% effective interest rate, final due date December 1, 2045	82,385	-	1,400	80,985
2016 Series A dated March 8, 2016, 2.99% effective interest rate, final due date March 1, 2046	4,800	-	60	4,740
2016 Series B dated May 17, 2016, 3.18% effective interest rate, final due date May 1, 2046	83,765	-	620	83,145
2016 Series C dated July 19, 2016, 2.72% effective interest rate, final due date July 1, 2046	5,000	-	375	4,625
2016 Series D dated October 18, 2016, 2.60% effective interest rate, final due date October 1, 2046	13,575	-	-	13,575
2017 Series A dated March 14, 2017, 3.66% effective interest rate, final due date March 1, 2049	28,160	-	-	28,160
2017 Series B dated June 13, 2017, 2.84% effective interest rate, final due date June 1, 2047	14,170	-	-	14,170
2017 Series C dated September 13, 2017, 3.24% effective interest rate, final due date September 1, 2047	-	2,860	-	2,860
2017 Series D dated October 19, 2017, 3.21% effective interest rate, final due date October 1, 2047	-	5,600	-	5,600
2017 Series E dated December 5, 2017, 3.19% effective interest rate, final due date December 1, 2050	-	54,130	-	54,130
2018 Series A dated March 27, 2018, 3.43% effective interest rate, final due date March 1, 2053	-	48,750	-	48,750
2018 Series B dated June 5, 2018, 3.70% effective interest rate, final due date June 1, 2053	-	30,455	-	30,455
	1,870,160	141,795	173,325	1,838,630
Unamortized premium	1,281			61
Total rental housing bond group	$ 1,871,441			1,838,691

Description	Balance at June 30, 2017	Issued	Retired	Balance at June 30, 2018
		(Dollars in thousands)		
Commonwealth mortgage bonds group:				
2002 Series E/F/G, dated December 17, 2002, 5.23% effective interest rate, final due date December 25, 2032	$ 8,109	-	776	7,333
2004 Series B, dated June 10, 2004, 5.73% effective interest rate, final due date June 25, 2034	1,945	-	283	1,662
2006 Series A/B, dated April 27, 2006, 5.67% effective interest rate, final due date March 25, 2036	3,435	-	2,061	1,374
2006 Series C, dated June 8, 2006, 6.23% effective interest rate, final due date June 25, 2034	12,121	-	1,540	10,581
2007 Series A/B/C/D, dated May 18, 2007, 4.92% effective interest rate, final due date October 1, 2035	161,760	-	161,760	-
2008 Series A, dated March 25, 2008, 6.09% effective interest rate, final due March 25, 2038	22,258	-	3,631	18,627
2008 Series B, dated April 10, 2008, 6.14% effective interest rate, final due date March 25, 2038	33,597	-	5,039	28,558
2008 Series C, dated November 18, 2008, 6.46% effective interest rate, final due date June 25, 2038	13,280	-	2,922	10,358
2012 Series A, dated December 20, 2012, 2.10% effective interest rate, final due date July 1, 2026	74,490	-	4,290	70,200
2012 Series B/C, dated December 20, 2012, 3.51% effective interest rate, final due date July 1, 2039.	630,820	-	89,065	541,755
2013 Series B, dated May 21, 2013, 2.75% effective interest rate, final due date April 25, 2042	51,406	-	8,108	43,298
2013 Series C, dated October 24, 2013, 4.25% effective interest rate, final due date October 25, 2043	82,176	-	8,447	73,729
2013 Series D, dated December 19, 2013, 4.30% effective interest rate, final due date December 25, 2043	61,836	-	4,095	57,741
2014 Series A, dated December 11, 2014, 3.50% effective interest rate, final due date October 25, 2037	84,392	-	11,270	73,122
2015 Series A, dated November 10, 2015, 3.25% effective interest rate, final due date June 25, 2045	114,507	-	14,712	99,795

Description	Balance at June 30, 2017	Issued	Retired	Balance at June 30, 2018
		(Dollars in thousands)		
2016 Series A, dated June 9, 2016, 3.10% effective interest rate, final due date June 25, 2041	$ 127,859	-	18,313	109,546
2017 Series A, dated June 13, 2017, 3.125% effective interest rate, final due date November 25, 2039	150,083	-	23,608	126,475
	1,634,074	-	359,920	1,274,154
Unamortized premium	(1,460)			(1,209)
Total commonwealth mortgage bonds group	$ 1,632,614			1,272,945
Homeownership mortgage bonds group:				
2010 Series A, dated February 10, 2010, 4.00% effective interest rate, final due date September 1, 2021	$ 28,430	-	10,000	18,430
2010 Series B, dated October 29, 2010, 3.10% effective interest rate, final due date March 1, 2022	29,700	-	6,500	23,200
2011 Series A, dated June 14, 2011, 3.58% effective interest rate, final due date March 1, 2024	26,600	-	2,900	23,700
2011 Series B, dated September 27, 2011, 3.41% effective interest rate, final due date September 1, 2024	37,850	-	5,900	31,950
2013 Series A, dated March 27, 2013, 3.25% effective interest rate, final due date August 25, 2042	110,844	-	18,380	92,464
Total homeownership mortgage bonds group	233,424	-	43,680	189,744
Total Notes and bonds payable	$ 4,198,779			3,746,680

Notes and bonds payable at June 30, 2016 and June 30, 2017 and changes for the year ended June 30, 2017 were summarized as follows (amounts in thousands):

Description		Balance at June 30, 2016	Issued	Retired	Increase/ (decrease) in unamortized premium/ discount	Balance at June 30, 2017
General operating accounts	$	444,600	111,700	95,000	-	461,300
Rental housing bond group		2,137,879	60,905	326,765	(578)	1,871,441
Commonwealth mortgage bond group		1,897,431	150,083	415,393	493	1,632,614
Homeownership mortgage bond group		285,625	-	52,201	-	233,424
Total	$	4,765,535	322,688	889,359	(85)	4,198,779

Current and noncurrent amounts of notes and bonds payable at June 30, 2018 and 2017 were as follows:

		June 30	
		2018	2017
Notes and bonds payable - current	$	576,393,288	768,564,253
Bonds payable - noncurrent		3,170,287,045	3,430,214,929
Total	$	3,746,680,333	4,198,779,182

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, 2018 and 2017. The Authority had redemptions of $321,410,000 and $507,641,113 during the years ended June 30, 2018 and 2017, respectively.

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, 2018 and thereafter are as follows:

Year ending June 30		Outstanding principal	Current interest	Total debt service
2019	$	576,393,288	133,262,595	709,655,883
2020		119,320,000	120,716,006	240,036,006
2021		106,265,000	117,986,555	224,251,555
2022		114,010,000	115,099,560	229,109,560
2023		93,595,000	111,930,249	205,525,249
2024-2028		444,115,000	513,209,488	957,324,488
2029-2033		478,263,316	427,284,517	905,547,833
2034-2038		589,658,863	321,370,764	911,029,627
2039-2043		886,215,419	170,189,671	1,056,405,090
2044-2048		319,642,101	15,880,230	335,522,331
2049-2053		20,350,000	1,653,385	22,003,385
Total	$	3,747,827,987	2,048,583,020	5,796,411,007

The principal payment obligations related to all note and bond indebtedness (excluding the effect of unamortized discounts and premium) commencing July 1, 2018 and thereafter are as follows:

Year ending June 30		General fund notes	Rental housing bonds	Commonwealth mortgage bonds	Homeownership mortgage bonds	Total principal
2019	$	445,300,000	59,365,000	54,243,418	17,484,870	576,393,288
2020		-	63,320,000	33,800,000	22,200,000	119,320,000
2021		-	56,265,000	32,900,000	17,100,000	106,265,000
2022		-	67,280,000	32,200,000	14,530,000	114,010,000
2023		-	48,495,000	32,500,000	12,600,000	93,595,000
2024-2028		-	266,545,000	161,820,000	15,750,000	444,115,000
2029-2033		-	325,640,000	152,623,316	-	478,263,316
2034-2038		-	401,155,000	188,503,863	-	589,658,863
2039-2043		-	409,575,000	386,561,617	90,078,802	886,215,419
2044-2048		-	120,640,000	199,002,101	-	319,642,101
2049-2053		-	20,350,000	-	-	20,350,000
Total	$	445,300,000	1,838,630,000	1,274,154,315	189,743,672	3,747,827,987

The associated interest related to all note and bond indebtedness commencing July 1, 2018 and thereafter are as follows:

Year ending June 30		General fund interest	Rental housing interest	Commonwealth interest	Homeownership interest	Total interest
2019	$	8,772,410	72,696,433	45,447,396	6,346,356	133,262,595
2020		-	71,068,559	43,895,043	5,752,404	120,716,006
2021		-	69,755,916	43,222,798	5,007,841	117,986,555
2022		-	68,195,649	42,480,135	4,423,776	115,099,560
2023		-	66,372,672	41,667,766	3,889,811	111,930,249
2024-2028		-	304,590,854	193,428,679	15,189,955	513,209,488
2029-2033		-	246,151,147	166,495,565	14,637,805	427,284,517
2034-2038		-	168,330,967	138,401,992	14,637,805	321,370,764
2039-2043		-	75,204,849	82,591,480	12,393,342	170,189,671
2044-2048		-	12,835,264	3,044,966	-	15,880,230
2049-2053		-	1,653,385	-	-	1,653,385
Total	$	8,772,410	1,156,855,695	800,675,820	82,279,095	2,048,583,020

The Authority entered into a $100 million revolving credit agreement on December 1, 2015 with the Bank of America to provide funds for general corporate purposes specifying a scheduled expiration date after one year, which may be extended from time to time but in no event later than December 1, 2025. The revolving credit agreement was amended on October 18, 2017 to specify the next scheduled expiration date as December 1, 2018. Under the terms of this agreement, 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, 2017, the borrowing rate was 1.9261%. The Authority is in compliance with all debt covenant requirements. At June 30, 2018, there were no balance outstanding. At June 30, 2017, there was $16.0 million outstanding.

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, 2018, there was $454.0 million in mortgage backed securities pledged to FHLB Atlanta. As of June 30, 2017, there was $10.0 million in cash and $451.4 million in mortgage backed securities pledged to FHLB 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, 2018 there were ten 90 day fixed rate borrowings: four for a total of $187.0 million at 1.88%, three for a total of $124.6 million at 2.01%, one for $9.7 million at 2.00%, and two for a total of $124.0 million at 2.08%. The Authority is in compliance with all debt covenant requirements. At June 30, 2018 and 2017, there were $445.3 million and $445.3 million outstanding, respectively.

(8) Loan Participation Payable to Federal Financing Bank

On March 23, 2015, the Authority was designated as a "qualified Housing Finance Agency" under the Risk-Sharing Act and entered into a Risk-Sharing Agreement with HUD. In conjunction with the Risk-Sharing Agreement, the Authority elected to participate in a program offered by the Federal Financing Bank (FFB) for the financing of rental housing mortgage loans. The FFB is a government corporation, under the general supervision and direction of the Secretary of the Treasury, created by Congress with statutory authority to purchase any obligation that is fully guaranteed by another federal agency. To the extent that FFB proceeds are utilized to finance certain mortgage loans, such mortgage loans would not be available to be financed under the Rental Housing Bond Group other than on a temporary basis prior to such FFB financing. In February 2016, the Authority executed the necessary agreements to allow the Authority to participate in such FFB financing.

Under the program established by the Risk-Sharing Act (the “Risk-Sharing Program”), the Authority retains underwriting, mortgage loan management and property disposition functions and responsibility for defaulted loans. Following default under a mortgage loan subject to a HUD contract of mortgage insurance under the Risk-Sharing Program, HUD agrees to make an initial claim payment of 100% of the loan’s unpaid principal balance and accrued interest, subject to certain adjustments that passes through the Authority to FFB. After a period during which the Authority may work toward curing the default, foreclosing the mortgage, or reselling the related project, any losses are calculated and apportioned between the Authority and HUD according to a specified risk-sharing percentage determined at the time of its endorsement for insurance. At its election, the Authority may choose a risk percentage ranging from 50% to 90%, which in turn determines its reimbursement obligation to HUD. During the intervening period prior to the final loss settlement, the Authority is obligated to pay interest on the amount of the initial claim payment under a debenture required to be issued to HUD at the time of the initial claim payment.

For each rental housing mortgage loan to be financed by the FFB, the Authority will sell to the FFB a certificate representing a participation interest in the rental housing mortgage loan consisting of all principal payments due thereon and all interest payments due thereon, whereby the rate to FFB will be less than the mortgage loan interest rate. The participation proceeds from the FFB are recorded as a debt obligation payable to the FFB.

Under these agreements, the Authority will retain responsibility for originating, closing and servicing the rental housing mortgage loans underlying the certificates sold to the FFB. As servicer, the Authority will remit the balance of each mortgage payment to U.S. Bank, N.A. (“Custodian”). The Custodian will fund any required account and pay the amounts due to the FFB, deduct their fees, then remit any amount remaining to the Authority as servicing fees.

Under the terms of the agreements in the Risk-Sharing Program, the Authority has sold certificates representing the beneficial interest in the following mortgage loans to FFB:

Description	Balance at June 30, 2017	Issued	Retired	Balance at June 30, 2018
Participation certificates outstanding:				
Colonnade at Rocktown - Note rate of 4.68% risk-share percentage (10% HUD/90% VHDA) pass-through rate of 3.45% maturity date May 1, 2047	$ 3,004,167	—	47,182	2,956,985
Wilsondale II - Note rate of 4.47% risk-share percentage (10% HUD/ 90% VHDA) pass-through rate of 3.12% maturity date July 1, 2047	7,800,000	—	115,743	7,684,257
Baker Woods - Note rate of 3.91% risk-share percentage (10% HUD/ 90% VHDA) pass-through rate of 2.89% maturity date of December 1, 2052	—	5,600,000	37,799	5,562,201
Twin Canal Village - Note rate of 3.82% risk-share percentage (10% HUD/90% VHDA) pass-through rate of 3.18% maturity date April 1, 2043	—	7,275,000	29,090	7,245,910
Total participation certificates payable	$ 10,804,167	12,875,000	229,814	23,449,353

(9) 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 15). The Authority invests these funds and, for project reserves, allows earnings to accrue to the benefit of the mortgagor.

At June 30, 2018 and 2017, these escrows and project reserves were presented in the Authority's Statements of Net Position as follows:

	June 30	
	2018	2017
Escrow - current	$ 33,652,835	33,695,294
Project reserves - noncurrent	128,015,652	113,864,723
Total	$ 161,668,487	147,560,017

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, 2018 and 2017, there were $56.0 million and $41.5 million in these trust accounts, respectively.

(10) 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 homeownership 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, 2018 were as follows:

Counterparty rating	Count	Par	Concentration	Notional amount	Fair value	Fair value asset (liability)
A-1+/AA+	31	$ 195,000,000	51.2%	$ 197,885,156	$ 198,615,000	$ (729,844)
A-1/A+	19	120,500,000	31.6%	123,101,601	123,509,453	(407,852)
A-1/A+	5	39,500,000	10.4%	40,593,008	40,662,422	(69,414)
Baa2/BBB	6	26,000,000	6.8%	26,137,305	26,287,656	(150,351)
	61	$ 381,000,000	100.0%	$ 387,717,070	$ 389,074,531	$ (1,357,461)

The outstanding forward contracts, summarized by counterparty as of June 30, 2017, were as follows:

Counterparty rating	Count	Par	Concentration	Notional amount	Fair value	Fair value asset (liability)
A-1+/AA+	29	$ 166,000,000	40.7%	$ 168,982,266	$ 168,544,766	$ 437,500
A-1/A+	19	124,500,000	30.6%	127,382,109	126,988,281	393,828
A-1+/AA-	10	10,200,000	25.0%	104,631,758	104,182,500	449,258
Baa2/BBB	3	15,000,000	3.7%	15,096,680	15,102,344	(5,664)
	61	$ 315,700,000	100.0%	$ 416,092,813	$ 414,817,891	$ 1,274,922

(11) 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 and no rebate liability existed as of June 30, 2018 and 2017.

(12) 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, 2018 and 2017, such plans included funds to be available for other loans and loan commitments; over commitments and over allocations in the various bond issues; support funds and contributions to bond issues; support for REACH Virginia initiatives and tenant-based housing assistance payments; and 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 uninsured assets; unsubsidized rental housing conventional loan program; and any unanticipated losses in connection with the uninsured portions of the balance of the homeownership and rental housing 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; homeownership loan prepayment shortfalls; and other risks and contingencies.

(13) Employee Benefits Plans

The Authority incurs employment retirement savings expenses 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, 2018 and 2017 was $4,140,153 and $3,389,362, 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, 2018 and 2017, included in other liabilities is an employee compensated absences accrual of $4,766,585 and $4,536,596, respectively (note 15).

(14) Other Post-Employment Benefits

General Information about the OPEB Plan

Beginning with the year ended June 30, 2018, the Authority adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* For the years ended June 30, 2017 and prior, the Authority followed GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for financial reporting purposes.

The Plan is a single-employer defined benefit plan established January 1, 2006 to provide post-employment reimbursement of eligible medical, dental and vision expenses to current and eligible future retirees and their spouses in accordance with the terms of the Plan.

The Authority serves as Plan Administrator for the Plan. Pursuant to a resolution of the Board of Commissioners of the Authority, the Executive Director of the Authority authorized and empowered the Retiree Health Care Plan Oversight Committee (Oversight Committee), a committee made up of five members of management, to carry out the duties and responsibilities as Plan Administrator for the Plan.

Plan assets are administered through the Trust, an irrevocable trust to be used solely for providing benefits to eligible participants in the Plan. Assets of the Trust are irrevocable and legally protected from creditors and dedicated to providing post-employment reimbursement of eligible medical, dental and vision expenses to current and eligible future retirees and their spouses, in accordance with the terms of the Plan.

At its sole discretion, the Authority retains the right to amend the Plan at any time and from time to time with respect to benefits, funding, contributions and permanency. The Authority reserves the right to discontinue or terminate its funding of the Plan at any time without prejudice, provided that the decision is terminate funding of the Plan is effected by a written resolution adopted by a majority of the Board of Commissions of the Authority.

At July 1, 2017, participants in the Plan consisted of the following:

Active employees, covered	336
Retirees	103
	439

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). 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, dental and vision expenses.

Plan documents note that all benefits under the Plan shall be funded by the Authority. No contributions may be made to the Plan by participants in the Plan. The Authority establishes contribution rates based on a percentage of budgeted payroll plus administrative fees incurred by the Plan. For the year ended December 31, 2017, the Authority's contribution rate ranged between 4.5% to 5.5% of covered payroll.

Net OPEB Liability at June 30, 2018

The Authority's net OPEB liability was measured as of December 31, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017.

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.0 percent
Salary increases	3.5 percent, per annum
Investment rate of return	6.25 percent, net of OPEB plan investment expenses, adjusted to 5.5% as of December 31, 2017
Healthcare cost trend rates	8.0 percent to grade uniformly to 5.0 percent over a 12-year period, assumption is that the Retiree Credit Matrix will increase at 5 percent per annum
Amortization period	20 years (open)

Mortality rates were based on the RP-2014 Total Dataset Mortality Table with Scale MP2016, for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale MP2016.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2017 – April 30, 2017.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Cash or Cash Equivalent	1%	2.00%
U.S. Fixed Income	59%	3.50%
U.S. Equity	40%	6.00%
International Equity	0%	3.50%
	100%	

The discount rate used to measure the total OPEB liability was 6.25% on January 1, 2017, adjusted to 5.5% as of December 31, 2017. The projections of cash flows used to determine the discount rate assumed the Authority contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active retirees. Therefore, the long-term expected rate of return on the Plan's investments was applied to all future periods of projected benefit payments to determine the total OPEB liability.

(Continued)

Changes to the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balances at December 31, 2016	$ 23,025,788	$ 27,229,930	$ (4,204,142)
Changes for the year:			
Service cost	675,928		675,928
Interest	1,419,341		1,419,341
Changes of benefit terms	-		-
Differences between expected and actual experience	(228,449)		(228,449)
Change of assumptions	2,830,950		2,830,950
Contributions - employer		1,758,037	(1,758,037)
Contributions - employee		-	-
Net investment income		3,717,204	(3,717,204)
Refund of contributions		(519,345)	519,345
Benefit (payments)/refunds	(519,345)		(519,345)
Administrative expenses		(117,278)	117,278
Net Changes	4,178,425	4,838,618	(660,193)
Balances at December 31, 2017	$ 27,204,213	$ 32,068,548	$ (4,864,335)

The change of assumptions was calculated based upon the change in the discount rate from 6.25% to 5.50%, used to measure the total OPEB liability as of December 31, 2016 versus December 31, 2017, respectively.

The following represents the net OPEB liability of the Authority, calculated using the stated discount rate assumption, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (4.5%) or 1 percentage-point higher (6.5%) than the current discount rate:

	1% Decrease	Current	1% Increase
	4.50%	5.50%	6.50%
Net OPEB liability (asset)	$ 69,553	$ (4,864,335)	$ (8,758,577)

The following represents the net OPEB liability of the Authority, calculated using the stated health care cost trend assumption, as well as what the Authority's net OPEB liability would be if it were calculated using a health care cost trend that is 1 percentage-point lower or 1 percentage-point higher than the current health care cost trend rates:

		1% Decrease		Current		1% Increase
		7% decreasing to 4% over 12 years		8% decreasing to 5% over 12 years		9% decreasing to 6% over 12 years
Net OPEB liability (asset)	$	(8,926,219)	$	(4,864,335)	$	285,282

Detailed information about the Plan's fiduciary net position is available in the separately issued Plan financial report.

<u>OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB for the year ended June 30, 2018</u>

For the year ended June 30, 2018, the Authority recognized OPEB expense of $460,949. At June 30, 2018, the Authority reported deferred outflows and inflows of resources related to OPEB from the following sources:

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	$	-	$	207,681
Changes of assumptions		2,573,591		-
Net difference between projected and actual earnings on OPEB Plan investments		-		1,729,015
Total	$	2,573,591	$	1,936,696

At June 30, 2018, the Authority reported no outstanding amount of contributions to the Plan required for the year ended December 31, 2017.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:		
2019	$	(195,663)
2020		(195,662)
2021		(195,663)
2022		(195,663)
2023		236,591
Thereafter		1,182,955
	$	636,895

Net OPEB Liability at June 30, 2017 and OPEB Expenses for the year ended June 30, 2017 (GASB 45)

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

Fiscal year-end	Beginning net OPEB obligation (asset)	ARC (Normal Cost)	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	(2,453)	1,865	21.04	980,325
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	21.04	406,132
June 30, 2017	(3,950,080)	428,524	(246,880)	193,488	21.04	375,132

The OPEB cost to the Authority and its contributions and changes in the Plan for fiscal years 2010 through 2017 are as follows:

Fiscal year-end	Beginning net OPEB obligation (asset)	Annual OPEB cost	Contribution	net OPEB obligation (asset)	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)
June 30, 2017	(3,950,080)	375,132	(1,497,710)	(1,122,578)	(5,072,658)

For the year ended June 30, 2017, the Authority's Annual OPEB cost was $375,132; the percentage of Annual OPEB Cost Contribution was 399.2%; and the ending Net OPEB asset was $5,072,658. 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.

As of December 31, 2016, the unfunded actuarial accrued liability/(funded asset) (UAAL) for benefits was ($4,204,142). The covered payroll (annual payroll of active employees covered by the Plan) was $30,687,904 and the ratio of the UAAL to the covered payroll was 13.7%. As of December 31, 2016, the actuarial value of net assets held by the Trust was $27,229,930, the actuarial accrued liability was $23,025,788, and the funded ratio was 118.3%.

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.

(Continued)

The total OPEB liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions:

Cost Method	Entry age-cost method was used
Asset valuation method	Fair value
Inflation	3.0 percent
Investment rate of return	6.25 percent, net of OPEB plan investment expenses
Salary increases	3.5 percent, per annum
Healthcare cost trend rates	8.0 percent to grade uniformly to 5.0 percent over a 12-year period, assumption is that the Retiree Credit Matrix will increase at 5 percent per annum.
Amortization period	30 years (open)

For the year ended June 30, 2017, there were approximately 103 participating retirees and spouses and 336 active employees earning service credits in the Plan.

The ARC for the fiscal year ended June 30, 2017 of $428,524 is approximately 1.40% of covered payroll.

The valuation also reflects the impact of the Cadillac tax, which was created as part of the Affordable Care Act, 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 2016-17 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.

(15) Other Long-Term Liabilities

Activity in the Authority’s noncurrent liability accounts, other than bonds payable, for the year ended June 30, 2018 was as follows:

		Balance at June 30, 2017	Additions	Decreases	Balance at June 30, 2018
Project reserves	$	113,864,723	74,196,685	60,045,756	128,015,652
Commonwealth Priority Housing Fund liability		6,521,380	1,640,955	1,333,960	6,828,375
Virginia Housing Trust Fund liability		6,005,177	2,669,948	435,192	8,239,933
Other liabilities		5,330,543	21,672,112	21,988,904	5,013,751
Compensated absences payable		4,536,596	2,257,858	2,027,869	4,766,585
	$	136,258,419	102,437,558	85,831,681	152,864,296

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the year ended June 30, 2017 was as follows:

		Balance at June 30, 2016	Additions	Decreases	Balance at June 30, 2017
Project reserves	$	118,787,264	37,126,862	42,049,403	113,864,723
Commonwealth Priority Housing Fund liability		7,020,204	109,201	608,025	6,521,380
Virginia Housing Trust Fund liability		2,784,193	3,420,097	199,113	6,005,177
Other liabilities		5,437,630	7,194,288	7,301,375	5,330,543
Compensated absences payable		4,334,247	2,344,910	2,142,561	4,536,596
	$	138,363,538	50,195,358	52,300,477	136,258,419

(16) 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, 2018 and 2017, 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.

Homeownership loans		Year ended June 30, 2018	2017
Aggregated recorded balance	$	97,170,032	75,654,423
Number of loans		759	576
Gross interest revenue if loans had been current		3,997,579	3,195,701
Interest revenue included in changes in net position		3,349,723	2,650,115

Rental housing loans		Year ended June 30, 2018	2017
Aggregated recorded balance	$	2,400,608	2,426,876
Number of loans		3	3
Gross interest revenue if loans had been current		141,069	144,549
Interest revenue included in changes in net position		63,168	64,312

(17) 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 Uniform Guidance, 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.

(18) Subsequent Events

In addition to scheduled issuances and redemptions, the Authority made redemptions of notes and bonds payable subsequent to June 30, 2018 as follows:

	Issue date/ Redemption date		Amount
Issues:			
Rental Housing Bond 2018 Series C-Non-AMT	8/28/2018	$	23,145,000
Redemptions:			
Rental Housing Bond 2009 Series A-Taxable	9/1/2018		63,065,000

SCHEDULE 1

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

Required Supplementary Information (unaudited)

Retiree Healthcare Plan – Schedule of Changes in Net OPEB Liability and Related Ratios

		December 31, 2017
Total OPEB Liability		
Service cost	$	675,928
Interest		1,419,341
Changes of benefit terms		-
Differences between expected and actual experience		(228,449)
Changes of assumptions		2,830,950
Benefit (payments)/refunds		(519,345)
Net change in Total OPEB Liability		4,178,425
Total OPEB Liability - beginning		23,025,788
Total OPEB Liability - ending	$	27,204,213
Plan Fiduciary Net Position		
Contributions - employer	$	1,758,037
Contributions - employee		-
Net investment income		3,717,204
Benefit (payments)/refunds		(519,345)
Administrative expenses		(117,278)
Other		-
Net change in Plan Fiduciary Net Position		4,838,618
Plan Fiduciary Net Position - beginning		27,229,930
Plan Fiduciary Net Position - ending	$	32,068,548
Net OPEB Liability (Asset) - ending	$	(4,864,335)
Plan Fiduciary Net Position as a% of the Total OPEB Liability		117.9%
Covered employee payroll	$	33,966,194
Net OPEB Liability (Asset) as a% of covered employee payroll		(14.3%)

Changes of assumptions. In 2017, the discount rate was adjusted from 6.25% to 5.5%.

SCHEDULE 2

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

Required Supplementary Information (unaudited)

Retiree Healthcare Plan – Schedule of Contributions

		2017
Actuarially determined contribution	$	297,975
Contributions in relation to the actuarially determined contribution		1,758,037
Contribution deficiency (excess)	$	(1,460,062)
Covered employee payroll	$	33,966,194
Contribution as a% of covered employee payroll		5.18%

Actuarially determined contribution rates are calculated as of December 31 within the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age-cost method was used
Amortization period	20 years (open)
Asset valuation method	Fair value
Investment rate of return	5.5 percent, net of OPEB plan investment expenses
Salary increases	3.5 percent, per annum
Healthcare cost trend rates	8.0 percent to grade uniformly to 5.0 percent over a 12-year period, assumption is that the Retiree Credit Matrix will increase at 5 percent per annum.
Retirement rate	In the July 1, 2017 actuarial valuation, rate of expected retirement ages of employees between age 55 and 65 are assumed to be similar to industry standards
Mortality	In the July 1, 2017 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP 2014 Total Dataset Mortality Table with Scale MP2016
Plan participation	95% of fully eligible pre-active employees are assumed to elect medical coverage upon retirement. 75% of fully eligible post-65 active employees
Marital Status	Actual spouse participation and dates of birth used for retirees. For actives, 60% are assumed to cover a spouse at retirement
Medical Claims Cost	Determined by disaggregating the premium based on plan coverage tier, and age
Age Variance	Claims were adjusted downward 3% each year for aging attained ages 65 to 55.

The results of the 2017 actuarial valuation reflect a modification of the investment rate of return from 6.25% to 5.5%.

SCHEDULE 3

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 (GASB 45)

Fiscal year-end	Actuarial value of assets	Actuarial accrued liability	Unfunded actuarial accrued liability (funded asset)	Funded ratio (%)	Covered payroll	Unfunded (funded) as a percentage 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	5,946,865	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)
December 31, 2016	27,229,930	23,025,788	(4,204,142)	118.3	30,687,904	(13.7)

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, 2016, the funded actuarial asset (funded asset) for benefits was ($4,204,142). The covered payroll (annual payroll of active employees covered by the Plan) was $30,687,904 and the ratio of the funded asset to the covered payroll was 13.7%. As of December 31, 2016, the actuarial value of net assets held by the Trust was $27,229,930, the actuarial accrued liability was $23,025,788, and the funded ratio was 118.3%. As of June 30, 2017, the Trust had $27,383,631 in net assets. As of June 30, 2016, the Trust had $24,868,467 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, 2016 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 8.0% 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 2017 ARC.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Position

June 30, 2018

Assets	**General Operating Accounts**	**Rental Housing Bond Group**	**Commonwealth Mortgage Bond Group**	**Home-ownership Bond Group**	**Total**
Current assets:					
Cash and cash equivalents	$ 198,373,184	415,067,997	252,560,514	9,345,821	875,347,516
Interest receivable – investments	1,889,037	642,932	576,749	12,713	3,121,431
Mortgage loans held for sale	-	-	162,588,442	-	162,588,442
Mortgage and other loans receivable, net	5,813,243	70,026,850	75,185,321	7,052,748	158,078,162
Interest receivable – mortgage and other loans	758,073	14,609,633	7,828,377	763,212	23,959,295
Other real estate owned	4,553,420	427,000	8,053,884	1,233,530	14,267,834
Other assets	8,415,338	-	1,229	-	8,416,567
Total current assets	219,802,295	500,774,412	506,794,516	18,408,024	1,245,779,247
Noncurrent assets:					
Investments	540,537,838	-	55,515,148	-	596,052,986
Mortgage and other loans receivable	202,532,995	2,956,040,912	2,158,288,404	252,124,283	5,568,986,594
Less allowance for loan loss	42,029,978	45,912,319	66,821,915	2,997,217	157,761,429
Less net loan discounts (premiums)	370,255	38,094,256	(1,319,715)	328,594	37,473,390
Mortgage and other loans receivable, net	160,132,762	2,872,034,337	2,092,786,204	248,798,472	5,373,751,775
Property, furniture, and equipment, less accumulated depreciation and amortization of $37,907,294	12,197,002	10,406,033	-	-	22,603,035
Mortgage servicing rights, net	34,632,275	-	-	-	34,632,275
Other Assets	17,551,381	-	-	-	17,551,381
Total noncurrent assets	765,051,258	2,882,440,370	2,148,301,352	248,798,472	6,044,591,452
Total assets	984,853,553	3,383,214,782	2,655,095,868	267,206,496	7,290,370,699
Deferred outflows of resources					
Other post-employment benefits - change in assumptions	2,573,591	-	-	-	2,573,591

(Continued)

Schedule 4

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
Combining Schedule of Net Position
June 30, 2018

Liabilities	**General Operating Accounts**	**Rental Housing Bond Group**	**Commonwealth Mortgage Bond Group**	**Home-ownership Bond Group**	**Total**
Current liabilities:					
Notes and bonds payable	445,300,000	59,365,000	54,243,418	17,484,870	576,393,288
Accrued interest payable on notes and bonds	382,179	19,712,955	9,132,684	1,405,516	30,633,334
Escrows	33,652,835	-	-	-	33,652,835
Derivative instruments	-	-	1,357,461	-	1,357,461
Accounts payable and other liabilities	18,832,737	-	-	-	18,832,737
Total current liabilities	498,167,751	79,077,955	64,733,563	18,890,386	660,869,655
Noncurrent liabilities:					
Bonds payable, net	-	1,779,325,938	1,218,702,305	172,258,802	3,170,287,045
Project reserves	128,015,652	-	-	-	128,015,652
Loan participation payable to Federal Financing Bank	23,449,353	-	-	-	23,449,353
Other (assets) liabilities	22,055,619	2,793,025	-	-	24,848,644
Total noncurrent liabilities	173,520,624	1,782,118,963	1,218,702,305	172,258,802	3,346,600,694
Total liabilities	671,688,375	1,861,196,918	1,283,435,868	191,149,188	4,007,470,349
Deferred inflows of resources					
Other post-employment benefits - difference between expected and actual experience	207,681	-	-	-	207,681
Other post-employment benefits - difference between projected and actual earnings	1,729,015	-	-	-	1,729,015
Total deferred inflows of resources	1,936,696	-	-	-	1,936,696
Net position					
Net investment in capital assets	12,197,002	38,693	-	-	12,235,695
Restricted by bond indentures	-	1,521,979,171	1,371,660,000	76,057,308	2,969,696,479
Unrestricted	301,605,071	-	-	-	301,605,071
Total net position	$ 313,802,073	1,522,017,864	1,371,660,000	76,057,308	3,283,537,245

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 ended June 30, 2018

	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	$ 6,823,324	186,454,969	108,603,529	11,633,864	313,515,686
Pass-through grant awards	115,634,605	-	-	-	115,634,605
Housing Choice Voucher program administrative income	8,144,611	-	-	-	8,144,611
Other real estate owned income	-	1,835,562	-	-	1,835,562
Gains and recoveries on sale of other real estate owned	247,359	3,052,926	1,065,673	119,524	4,485,482
Gains on sale of single family mortgage loans	-	-	21,147,087	-	21,147,087
Mortgage servicing fees net of guaranty fees	30,137,033	-	-	-	30,137,033
Other	6,898,044	3,606,442	1,649	-	10,506,135
Total operating revenues	167,884,976	194,949,899	130,817,938	11,753,388	505,406,201
Operating expenses:					
Interest on notes and bonds payable	7,000,658	74,711,059	47,783,943	7,003,648	136,499,308
Salaries and related employee benefits	55,490,578	-	-	-	55,490,578
General operating expenses	43,907,209	-	-	-	43,907,209
Note and bond expense	360,655	-	2,205	-	362,860
Bond issuance expenses	202,850	1,640,992	225,923	-	2,069,765
Pass-through grants expenses	115,634,605	-	-	-	115,634,605
Housing Choice Voucher program expenses	8,195,612	-	-	-	8,195,612
Servicing release premiums and other servicing costs	13,008,052	-	(1,180,273)	-	11,827,779
Other real estate owned expenses	-	1,344,848	-	-	1,344,848
Losses on other real estate owned	104,187	-	1,922,411	112,178	2,138,776
Provision for loan losses	2,166,233	2,884,968	3,955,365	(420,223)	8,586,343
Total operating expenses	246,070,639	80,581,867	52,709,574	6,695,603	386,057,683
Operating income (expense)	(78,185,663)	114,368,032	78,108,364	5,057,785	119,348,518
Nonoperating revenues (expenses):					
Investment income	7,113,142	4,717,853	3,601,338	110,065	15,542,398
Unrealized loss on derivative instruments	-	-	(2,632,383)	-	(2,632,383)
Other, net	12,308	-	-	-	12,308
Total nonoperating revenues, net	7,125,450	4,717,853	968,955	110,065	12,922,323
Income (loss) before transfers	(71,060,213)	119,085,885	79,077,319	5,167,850	132,270,841
Transfers between funds	120,003,873	(12,968,078)	(110,071,839)	3,036,044	-
Change in net position	48,943,660	106,117,807	(30,994,520)	8,203,894	132,270,841
Total net position, beginning of year	264,858,413	1,415,900,057	1,402,654,520	67,853,414	3,151,266,404
Total net position, end of year	$ 313,802,073	1,522,017,864	1,371,660,000	76,057,308	3,283,537,245

See accompanying independent auditors' report.

Schedule 6

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

Combining Schedule of Net Position

June 30, 2017

Assets		General Operating Accounts	Rental Housing Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Current assets:						
Cash and cash equivalents	$	201,305,919	305,143,443	372,906,720	14,916,699	894,272,781
Interest receivable – investments		1,659,358	220,651	333,807	10,898	2,224,714
Derivative instruments		-	-	1,274,922	-	1,274,922
Mortgage loans held for sale		-	-	195,208,735	-	195,208,735
Mortgage and other loans receivable, net		5,046,143	62,225,665	79,513,599	9,903,765	156,689,172
Interest receivable – mortgage and other loans		436,332	15,089,485	8,752,960	868,669	25,147,446
Other real estate owned		3,378,154	10,334,419	11,890,272	1,424,755	27,027,600
Other assets		7,891,983	79,483	-	-	7,971,466
Total current assets		219,717,889	393,093,146	669,881,015	27,124,786	1,309,816,836
Noncurrent assets:						
Investments		509,703,165	-	38,898,701	-	548,601,866
Mortgage and other loans receivable		164,517,113	3,007,080,653	2,406,317,708	279,976,157	5,857,891,631
Less allowance for loan loss		39,622,644	43,075,351	67,903,807	3,734,591	154,336,393
Less net loan discounts/(premiums)		195,389	38,025,719	(1,197,824)	371,395	37,394,679
Mortgage and other loans receivable, net		124,699,080	2,925,979,583	2,339,611,725	275,870,171	5,666,160,559
Property, furniture, and equipment, less accumulated depreciation and amortization of $35,095,820		13,032,520	11,102,467	-	-	24,134,987
Mortgage servicing rights, net		25,426,265	-	-	-	25,426,265
Other assets		18,290,333	-	-	-	18,290,333
Total noncurrent assets		691,151,363	2,937,082,050	2,378,510,426	275,870,171	6,282,614,010
Total assets	$	910,869,252	3,330,175,196	3,048,391,441	302,994,957	7,592,430,846

(Continued)

Schedule 6

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

Combining Schedule of Net Position

June 30, 2017

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	$ 461,300,000	73,435,000	210,906,261	22,922,992	768,564,253
Accrued interest payable on notes and bonds	184,491	21,637,795	13,055,855	1,717,413	36,595,554
Escrows	33,695,294	-	-	-	33,695,294
Accounts payable and other liabilities	24,917,654	47,452	66,720	-	25,031,826
Total current liabilities	520,097,439	95,120,247	224,028,836	24,640,405	863,886,927
Noncurrent liabilities:					
Bonds payable, net	-	1,798,005,706	1,421,708,085	210,501,138	3,430,214,929
Project reserves	113,864,723	-	-	-	113,864,723
Loan participation payable to Federal Financing Bank	10,804,167	-	-	-	10,804,167
Other liabilities	1,244,510	21,149,186	-	-	22,393,696
Total noncurrent liabilities	125,913,400	1,819,154,892	1,421,708,085	210,501,138	3,577,277,515
Total liabilities	646,010,839	1,914,275,139	1,645,736,921	235,141,543	4,441,164,442
Net position:					
Net investment in capital assets	13,032,520	466,043	-	-	13,498,563
Restricted by bond indentures	-	1,415,434,014	1,402,654,520	67,853,414	2,885,941,948
Unrestricted	251,825,893	-	-	-	251,825,893
Total net position	264,858,413	1,415,900,057	1,402,654,520	67,853,414	3,151,266,404

See accompanying independent auditors' report.

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, 2017

	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	$ 5,878,288	193,169,318	121,243,592	13,514,598	333,805,796
Pass-through grant awards	117,946,339	-	-	-	117,946,339
Housing Choice Voucher program administrative income	6,798,165	-	-	-	6,798,165
Other real estate owned income	-	3,938,973	-	-	3,938,973
Gains and recoveries on sale of other real estate owned	235,744	5,193,945	1,624,416	53,727	7,107,832
Gains on sale of single family mortgage loans	-	-	24,588,598	-	24,588,598
Mortgage servicing fees net of guaranty fees	20,751,322	-	-	-	20,751,322
Other	5,307,900	2,591,587	2,231	-	7,901,718
Total operating revenues	156,917,758	204,893,823	147,458,837	13,568,325	522,838,743
Operating expenses:					
Interest on notes and bonds payable	3,680,632	81,927,682	59,043,183	8,552,347	153,203,844
Salaries and related employee benefits	48,000,730	-	-	-	48,000,730
General operating expenses	47,611,538	-	-	-	47,611,538
Note and bond expenses	268,549	492,157	182,766	-	943,472
Bond issuance expenses	208,101	567,100	777,358	-	1,552,559
Pass-through grants expenses	117,946,339	-	-	-	117,946,339
Housing Choice Voucher program expenses	6,871,301	-	-	-	6,871,301
Servicing release premiums and other servicing costs	8,285,377	-	2,409,371	-	10,694,748
Other real estate owned expenses	-	2,656,861	-	-	2,656,861
Losses and expenses on other real estate owned	(428,245)	4,562,637	3,305,153	110,625	7,550,170
Provision for loan losses	12,064,734	(12,737,801)	(14,575,810)	(697,718)	(15,946,595)
Total operating expenses	244,509,056	77,468,636	51,142,021	7,965,254	381,084,967
Operating income (expense)	(87,591,298)	127,425,187	96,316,816	5,603,071	141,753,776
Nonoperating revenues (expenses):					
Investment income (loss)	10,159,695	1,852,221	(1,061,643)	80,647	11,030,920
Unrealized gain on derivative instruments	-	-	6,364,257	-	6,364,257
Other, net	174,180	-	-	-	174,180
Total nonoperating revenues, net	10,333,875	1,852,221	5,302,614	80,647	17,569,357
Income (loss) before transfers	(77,257,423)	129,277,408	101,619,430	5,683,718	159,323,133
Transfers between funds	177,035,430	(76,918,582)	(100,295,797)	178,949	-
Change in net position	99,778,007	52,358,826	1,323,633	5,862,667	159,323,133
Total net position, beginning of year	165,080,406	1,363,541,231	1,401,330,887	61,990,747	2,991,943,271
Total net position, end of year	$ 264,858,413	1,415,900,057	1,402,654,520	67,853,414	3,151,266,404

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, 2018, 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 financial statements, and have issued our report thereon dated September 13, 2018.

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 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*.

KPMG

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

Richmond, Virginia
September 13, 2018