Report to the Governor, the Secretary of Commerce and Trade, the House Appropriations Committee and the Senate Finance Committee

The Virginia Housing Trust Fund
and the
Financial Status of the Virginia Housing Partnership Fund

Submitted by:
The Department of Housing and Community Development

December 2014

Virginia Housing Trust Fund
Financial Status of the Virginia Housing Partnership Fund

Introduction

During its 2013 regular session, the General Assembly amended provisions of Chapter 9 of Title 36 to provide statutory direction for the administration of the Virginia Housing Trust Fund. Item 108 G of the 2012 Appropriations Act had established the Trust Fund and provided an initial allocation of $7 million to become available in FY 2014. The 2013 statutory changes modified certain reporting requirements that originally applied to the former Virginia Housing Partnership Revolving Fund. Effective July 1, 2013, § 36-150 of the Code of Virginia required the Department of Housing and Community Development (DHCD) to report annually on the Trust Fund and such other matters the Department may deem appropriate, including the status of the former Housing Partnership Revolving Fund. Designated recipients of the report include the Governor, Secretary of Commerce and Trade and the Chairmen of the House Appropriations and the Senate Finance Committees.

Actions by the 2014 General Assembly further modified the reporting regime associated with the Housing Trust Fund through the inclusion of language in budget Item 103 F that attached a reporting requirement to the existing Trust Fund planning requirement established by § 36-142 E, Code of Virginia.[1] Because the 2014 General Assembly did not appropriate additional monies to the Trust Fund, DHCD was not required to prepare a plan for their disposition during FY 2015. However, the new reporting requirement resulted in DHCD preparing and submitting a report on the status of the Trust Fund to the House Appropriations and Senate Finance Committees on the first business day of November 2014.[2] That report dealt primarily with activities occurring during the term of FY 2014.

In accordance with these statutory and budgetary requirements, DHCD presents the following document, which includes two sections. Part I reviews recent activities associated with the operation of the Housing Trust Fund during the period since the close of FY 2014. Part II updates information concerning the financial status of the Virginia Housing Partnership Revolving Fund, presently administered by the Virginia Housing Development Authority (VHDA). The latter section continues the format used during previous years in accordance with the former statute and incorporates materials provided by VHDA's independent auditor, KPMG, LLP.

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[1] http://lis.virginia.gov/cgi-bin/legp604.exe?142+bud+21-103

[2] http://leg2.state.va.us/dls/h&sdocs.nsf/By+Year/RD3652014/$file/RD365.pdf , *Virginia Housing Trust Fund Structure and Use Plan and Loan and Grant Fund Impacts, 2015 Update*

Part I: The Virginia Housing Trust Fund

Background

In 2013, the General Assembly amended the previous biennium budget to raise the total appropriation for the Virginia Housing Trust Fund (HTF) to $8,000,000. In accordance with statutory requirements, DHCD and the Virginia Housing Development Authority (VHDA) worked collaboratively to initiate the Fund's operations. As the result of an intensive planning process during 2012, the agencies had prepared the Housing Trust Fund Structure and Use Plan, which they originally submitted to the Senate Finance and House Appropriations Committees in November 2012.[3] The agencies subsequently revised the plan to reflect the additional $1 million in resources. As required by the budget, the Plan directed 80 percent of its resources for loans intended to provide affordable housing opportunities. These took the form of foreclosure rehabilitation loans, which provided a means for reanimating a portion of the inventory of foreclosed properties, and affordable housing loans, which focused on affordable rental and supportive housing projects. Most of the remaining twenty percent of the funds were directed to grants targeting the reduction of homelessness and homeowner/foreclosure counseling in targeted areas with high foreclosure inventories. The HTF Plan included as an integral component support for ongoing state housing policy priorities and opportunities to leverage other resources to address the Commonwealth's housing needs.

Recent Activities

DHCD has prepared this portion of the current report in response to the provisions §36-150, Code of Virginia. It recapitulates and, where necessary, updates material included in Report Document 365 (2014) relating to the status of the Trust Fund.

DHCD and VHDA developed the Trust Fund Structure and Use Plan to emphasize the strategic use of the limited funds available by considering targeted demonstration projects addressing high priority areas of need. Identified uses included increasing housing options for low-income persons with disabilities, enhancing opportunities to advance effective solutions to homelessness such as permanent supportive housing, and directing resources toward countering the impact of foreclosures on Virginia communities--particularly in those areas with the highest foreclosure rates.

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[3] http://leg2.state.va.us/dls/h&sdocs.nsf/By+Year/RD2882012/$file/RD288.pdf , *Virginia Housing Trust Fund Structure and Use Plan*

DHCD and VHDA adopted the broad categories shown on the following table. The agencies encouraged a variety of responses from eligible applicants to assure the timely and strategic deployment of available funds.[4]

Initial FY 2014 Virginia Housing Trust Fund Allocations	
Loans	
Competitive Loan Pool	$5,400,000
Foreclosure Rehabilitation Loans	1,000,000
Grants	
Competitive Grant Pool	930,000
Foreclosure/Homeowner Counseling	500,000
Administration	170,000
Total	$8,000,000

Affordable Housing Loan Program Components

The Affordable Housing Loan Program incorporated two distinct components. They included a competitive loan pool open to a variety of eligible projects addressing the Fund's purposes and a second, smaller component that included a residential foreclosure rehabilitation and resale program. The latter was intended to promote home ownership and preserve stable residential communities in those areas hardest hit by the foreclosure wave.

Competitive Loan Pool

The competitive loan pool established a priority for demonstration projects addressing articulated state housing policies. Such policies included supporting affordable, community housing options for persons with disabilities and expanding permanent housing opportunities for persons experiencing homelessness.

Another priority area—promoting the appropriate reuse of foreclosed residential properties in ways that restore home ownership while stabilizing neighborhoods and increasing the supply of housing targeted to very low-income citizens—received a separate allocation from the loan fund.

The Housing Development Loan Pool offered low-interest loans structured to meet the financing needs of specific projects. DHCD and VHDA anticipated that a majority of the loan pool would provide financial assistance for projects that addressed the affordable rental housing needs of very low-income citizens. The agencies assigned a high priority to projects serving areas of

[4] Report Document 383 (2013), *The Virginia Housing Trust Fund and the Financial Status of the Virginia Housing Partnership Fund*, contains more detailed information about the first round allocation of Trust Fund resources. See: http://leg2.state.va.us/dls/h&sdocs.nsf/By+Year/RD3832013/$file/RD383.pdf

critical housing need, including prisoners re-entering the community and returning veterans. The agencies emphasized projects with an identified strategy for financial sustainability, such as providing rental assistance to income-qualified tenants. Repayment rates and terms for each individual loan varied to fit the particular circumstances. Applicants were encouraged to pursue opportunities to leverage funds from other sources such as Low-Income Housing Tax Credits (LIHTC), program income recycled through the federally-funded Neighborhood Stabilization Programs (NSP 1 and 3), and other federal and local housing programs.

DHCD selected projects via a competitive process that began well before the initial availability of program funds. This also facilitated coordination with other housing finance programs such as LIHTC and HOME. DHCD reviewed funding requests from 29 applicants using a standardized review with a 100-point scale.[5] DHCD initially offered funding to the nine highest scoring projects though one project was subsequently withdrawn. DHCD fully executed contracts with its remaining partners by mid-March 2014.

The following table summarizes the results of the initial competition.

FY 2014 Competitive Loan Pool					
Project Applicant	**Location**	**Project Name**	**Loan Amount**	**Proposed Units**	**Purposes**
Community Housing Partners	City of Hopewell	Langston Park Apartments	$673,000	56	Creation of affordable rental units for families and individuals < 50 % of Area Median Income
Community Residences, Inc.	County of Fairfax (Annandale)	CR Independent Permanent Supportive Housing	$743,108	5	Permanent supportive housing for persons with developmental / intellectual disabilities, mental illness and/or homelessness
Danville Redevelopment and Housing Authority	City of Danville	Upper Street Apartments	$700,000	13	Creation of affordable units to serve veterans, persons with disabilities and very low-income households
Hampton Newport News Community Services Board	City of Newport News	New Phoenix Village	$750,000	45	Rehabilitate units to serve very low-income elderly persons or those with disabilities
Harrisonburg Redevelopment and Housing authority	City of Harrisonburg	Commerce Village	$750,000	56	Provide permanent supportive housing for very low income chronically homeless and medically vulnerable residents

[5] Project evaluation criteria included: (1) direct impact on one or more high priority state housing policies; (2) leveraging; (3) affordability; (4) financial sustainability; (5) impact on local housing needs; (6) feasibility, (7) readiness, (8) coordination of services and (9) the applicant’s administrative capacity.

FY 2014 Competitive Loan Pool					
Project Applicant	**Location**	**Project Name**	**Loan Amount**	**Proposed Units**	**Purposes**
Virginia Community Development Fund, Inc.	County of Wise	Stonebriar Apartments	$200,000	24	Rehabilitate key building systems to extend the affordability of units serving low-income seniors and persons with disabilities
Virginia Supportive Housing	City of Virginia Beach	Crescent Square	$750,000	80	Participate in funding for new rental units serving homeless and low-income persons
Virginia Supportive Housing	City of Richmond	Studios II	$750,000	39	Renovate existing supportive housing development serving formerly homeless adults including veterans
Totals			$5,316,108	318	

Impacts of the Competitive Loan Pool

The eight organizations received loans at interest rates ranging from .5% to 2% for terms of twenty or thirty years. Three were amortizing loans; four were on an interest-only basis. One loan, while made on an interest only basis, required the Trust Fund to hold the first position among the participating lenders.

DHCD has obligated the bulk (98 percent) of the funds available for this Trust Fund program. However, because most of the individual projects address financial arrangements, either through interest reductions or as part of a blended package from different funding sources, funds will not be fully expended until the projects come to the closing table, which is projected to occur within the current fiscal year.

Foreclosure Rehabilitation

DHCD also set aside up to $1 million of the loan pool to support the Virginia Trust Stabilization Program (TSP). This two-year demonstration program drew on the agency's experience with two rounds of the federally funded Neighborhood Stabilization Programs (NSP 1 and 3). The TSP goal was to renovate 50 properties. Applicants could use the loans to transform previously foreclosed homes into community assets. Working with locally based organizations meeting eligibility criteria, VHDA provided a line of credit from its resources that these organizations could use to acquire eligible homes. These were primarily lender-owned (REO) properties in the areas hardest hit by the foreclosure crisis. This competitive program required participating organizations to submit a strategy identifying eligible neighborhoods within their service area.[6]

FY 2014 Foreclosure Rehabilitation Loan Pool--Trust Stabilization Program	
Program Partner	**Service Area**
Habitat for Humanity, Virginia	Statewide
Central Virginia Housing	Counties of Caroline, Orange, Culpeper, King George, Spotsylvania, and Stafford and the City of Fredericksburg
Catholics for Housing	Counties of Arlington, Fairfax, Fauquier, Prince William, Frederick, Warren and Cities of Alexandria , Fairfax, Falls Church, Manassas, Manassas Park and Winchester
Southside Outreach Group (SSORG)	Counties of Amelia, Amherst, Appomattox, Brunswick, Campbell, Charlotte, Cumberland, Dinwiddie, Emporia, Halifax, Lunenburg, Mecklenburg, Nottoway, Pittsylvania and Prince Edward and the City of Emporia
Community Housing Partners (CHP)	Southwest Virginia, Frederick and Warren Counties, City of Winchester and Metro Richmond

TSP offered deferred, potentially forgivable loans averaging approximately $15,000. This amount included local administrative costs and the cost of remediating deficiencies in the home to place it into a marketable state for resale. TSP included two distinct components. The first—NSP option—required the local partner to use TSP funds as leveraging in conjunction with the federally funded NSP program in NSP eligible areas that were among the hardest hit by foreclosures. Actual per unit renovation costs in these homes were not to exceed $10,000. The second or regional option made funds available to address foreclosures statewide in areas where federal NSP funds might not be available. The per unit renovation cost limit for these homes was $20,000.

Prospective homebuyers for these properties meeting VHDA criteria could access a permanent financing set-aside of subject to income and sales price limits. While this program would be available on a statewide basis, the agencies assigned their highest priority for loans to proposals:

1. Serving areas with high foreclosure levels;
2. Demonstrating strong potential for the quick restoration of home ownership;

[6] The agencies based their evaluation on the applicants' demonstrated understanding of the local housing market, strategic use of Community Improvement Home Loan Program resources, maximization of community impact and establishment of partnerships to maximize capacity and resources.

3. Providing home ownership opportunities to qualifying low-income households such as first-time homebuyers; and
4. Revitalizing communities hardest hit by the effects of foreclosure as evidenced by their identification as areas of the state targeted for foreclosure counseling by VHDA.

In the target areas, VHDA worked with homebuyers to facilitate their access to appropriate mortgage products. This approach encouraged local program sponsors to seek partnership opportunities for direct participation by local real estate professionals and contractors.

As part of the transaction, the first $5,000 in TSP funds will be forgiven at closing. Any remaining TSP loan funds are recorded as a "soft second" lien against the property for the duration of a stipulated period of affordability.

Impacts of the Foreclosure Rehabilitation Loan Pool

Since the program became operational during the first quarter of FY 2014, the loan pool has facilitated the acquisition of 37 properties for rehabilitation and resale. These were located in 22 different localities spanning the Commonwealth. Twenty-seven of these properties leveraged NSP funds. TSP acquired the remaining ten through the regional option. Of these 36 properties, 17 have already been resold; additional closings will take place over the next several months.

At the close of FY 2014, nearly 90 percent of the Trust Fund resources allocated to this program had been expended or obligated. The remaining program funds should be sufficient to enable DHCD reach its goal of returning at least fifty rehabilitated units to occupancy.

Homeless Reduction Grant Program

Up to 20 percent of the Virginia Housing Trust Fund could be used for grants supporting activities designed to reduce homelessness. As with the loan program, DHCD and VHDA split the grants into two distinct components. The largest share of the grants was offered through a competitive process open to a variety of eligible applicants targeting the reduction of homelessness. The second component was dedicated to foreclosure and housing counseling targeting those areas of the Commonwealth hardest hit by foreclosure. Any remaining residual balances of unused grant funds could be reallocated to the Affordable Housing Loan Program.

Homeless Reduction Grant funds could provide temporary rental assistance, (not to exceed one year), housing stabilization services in supportive housing for homeless individuals and families, and predevelopment assistance to support long-term housing opportunities for the homeless. The restriction on the amount of the Trust Fund available for grants (and the one-year assistance limitation) prevented the Trust Fund from serving as a significant, long-term source of rental assistance. However, it could be used to close temporary gaps for individuals, providing bridge funding for individuals transitioning into rental arrangements with documented commitments of future rental assistance from other federal, state or local sources.

DHCD also used a competitive application process to select projects for funding. Applicants could apply for up to $100,000. The application period paralleled that of the loan program. The initial application period closed on April 15, 2013.[7] If required and additional resources became available or applicants subsequently withdrew, follow-up application periods would follow the same schedule as the loan program. As with the loan program, DHCD ranked competitive project applications using a standardized review instrument. DHCD assigned a higher priority to housing stabilization services and pre-development assistance that were directly related to a project proposed for funding through the Affordable Housing Loan Program. Fifty-eight applicants requested a total of more than $4.8 million. DHCD offered funding offers to the ten highest-ranking. One project subsequently withdrew, leaving nine active projects at present. Any funding not allocated through the initial application process was to be offered during subsequent round(s).

FY 2014 Homeless Reduction Grant Participants

Project Name	Locations Served	Funding Amount	Purposes
New Phoenix Village	Cities of Hampton and Newport News	$ 100,000	Provide pre-development services for the project, including relocation costs, appraisals and market studies, architectural and engineering services
Hampton Human Services Trust Fund	City of Hampton	$ 100,000	Provide rental assistance and case management services
Pathway Homes Predevelopment	Fairfax County	$ 100,000	Provide pre-development services for this SRO project
Samaritan House Housing NOW	City of Virginia Beach	$ 32,779	Facilitate rapid re-housing by providing services, including rental subsidies and support/stabilization services
Heron’s Landing Housing Stabilization	City of Chesapeake	$ 100,000	Fund the provisions of supportive services including supportive counseling, skills straining, advocacy and links with community service providers
Flagler Rapid Re-housing	City of Richmond	$ 100,000	Facilitate rapid re-housing through the provision of rental assistance and financial stabilization services
Housing Resource Center Rapid Re-housing	City of Petersburg	$ 100,000	Facilitate rapid re-housing through the provision of rental assistance and financial stabilization services

[7] DHCD’s initial project selection employed the following criteria: direct impact on an established state housing policy; sustainability; impact on local needs; impact on reducing homelessness; feasibility; and capacity.

FY 2014 Homeless Reduction Grant Participants			
Project Name	**Locations Served**	**Funding Amount**	**Purposes**
Arlington Mill Permanent Supportive Housing	County of Arlington	$ 88,000	Provide on-site supportive services to this permanent supportive housing project
STEP Housing Trust Fund Program	Town of Rocky Mount	$ 100,000	Provide rental assistance and supportive services to groups including ex-offenders and veterans
Total		$820,779	

Homeless Reduction Grant Impacts

Projects and organizations receiving Homeless Reduction Grant funding directed most of those resources to rapid re-housing rental assistance/stabilization or permanent supportive housing stabilization. In addition, two recipients have committed funds to pre-development costs for projects that directly address their ability to reduce the impact of homelessness in their service areas.

Grant recipients report that approximately 220 households comprising almost 450 persons have thus far benefited from the activities the grant funds enabled. The program has made possible greater availability of additional case management and supportive housing staff, provided a much-needed funding source for rental assistance, and supported other activities or interventions that equip families and households to improve their housing circumstances. The result has been evident in the increased capacity of these organizations to assist their clients stabilize their lives and reduce the risk of returning to homelessness through improved health, increased incomes and better housing options. The combination of timely responses that either prevent people from falling into homelessness or assure that the period of homelessness is minimized have contributed to the general reduction in the numbers of homeless being reported through annual surveillance.

Foreclosure/Homeowner Counseling Grants

DHCD set aside a pool of $500,000 in grants for foreclosure counseling in areas of the Commonwealth with the highest incidence of foreclosure. These grants were awarded to 26 recipients in conjunction with VHDA's ongoing housing and foreclosure counseling activities. This approach also provided opportunities for linkages with the Community Improvement Loan program discussed earlier.

Foreclosure/Homeowner Counseling Grant Impacts

The availability of Housing Trust Fund resources effectively leveraged another $240,000 in VHDA funding. The combination of these resources enabled VHDA to offer services to over 5,300 clients. Noteworthy achievements include over 2,000 clients who completed training on financial literacy, home maintenance and predatory lending. A significant number of clients were also able to resolve mortgage delinquency issues, allowing those households to remain in their homes. Over 200 households were able to bring their mortgage current; approximately 370 were able to refinance or modify their mortgage; over 80 households were able to work out a repayment plan with the lender. Besides the direct benefit accruing to the families and individuals who were enabled to retain possession of their homes, local communities received an indirect benefit when these properties remained occupied and maintained by those owners.

Loan and Grant Fund Impacts

The financial resources associated with the Housing Trust Fund have been available for 17 months. During that period, approximately 97.5 percent of program funds have been obligated. To date, DHCD has expended one quarter of the Fund on qualifying projects or activities. The initial expenditures targeted problems that could be addressed quickly. These involved responses that mitigated the lingering effects of the foreclosure crisis. They provided a source of loan funding for the rehabilitation and restoration of foreclosed properties, returning them to productive use as affordable housing within viable communities. They also provided additional supports through grants to foreclosure and homeowner-counseling services intended to overcome problems associated with foreclosure or to prevent future recurrences of the waves of foreclosures that swept across the state when the housing bubble burst. Other grant funds went to organizations committed to activities that directly address the reduction of homelessness through rapid re-housing strategies and supportive services.

The remaining resources, primarily loans, have been committed to larger scale and longer-term activities and projects that address housing affordability and the availability of permanent supportive housing. As these resources are expended, the actual number of units being assisted will be reported and their outcomes evaluated. Besides accounting for the number of units receiving assistance, DHCD will be able to provide a more in-depth look at the ability of projects to reach hard-to-serve target populations; services provided to support reducing homelessness and the degree to which other financial resources can be leveraged for housing.

Without an infusion of additional resources, however, it currently appears that the Trust Fund will have deployed or expended virtually all of its currently available resources during FY 2016.

Virginia Housing Trust Fund 2014 Summary Activity Data

FY 2014 Virginia Housing Trust Fund Allocations		Funds Obligated (11/25/2014)	Funds Expended (11/25/2014)	# of Projects Funded	# of New or Rehabbed Affordable Units Assisted	# of Households Receiving Assistance
Loans						
Competitive Loan Pool	$5,400,000	$5,316,108	$743,108	7 (supporting rapid re-housing and stabilization services)	Proposed: 318	4 condominium units acquired to provide affordable permanent supportive housing to 10 individuals with developmental/intellectual disabilities (ID/DD), chronic mental illness (MH), and/or homeless
Foreclosure Rehabilitation Loans (Trust Stabilization Program or TSP)	$1,000,000	$1,000,000	$335,917	5 participating community partners	Acquired: 37 Resold: 17 Sale pending 1	
Grants						
Competitive Grant Pool (Homeless Reduction)	$ 930,000	$820,779	$415,429	7 (supporting rapid re-housing and stabilization services); 2 housing pre-development projects		220 households including: 14 with 1 or more veterans 38 youth household heads 23 chronically homeless 220 adults and 214 children
Foreclosure/Homeowner Counseling	$ 500,000	$500,000	$500,000	26 Housing Counseling Agencies		2,430 households received homeownership training and education 2,902 households received help resolving or preventing mortgage delinquencies
Administration	$ 170,000	$170,000	$7,502			
Total	$8,000,000	$7,806,887	$2,001,956			

Part II: Financial Status of the Virginia Housing Partnership Revolving Fund

The 1988 General Assembly established the Virginia Housing Partnership Revolving Fund to expand the availability of affordable housing opportunities within the Commonwealth. The Virginia Housing Development Authority (VHDA) administered and managed the Partnership Fund, subject to policies, procedures and programs established by the Department of Housing and Community Development (DHCD). In accordance with a Memorandum of Understanding between the two agencies, the Authority made underwriting recommendations and provided legal and loan servicing assistance for loan and grant applications identified by the Department. Following 1989, the Partnership Fund provided grants and loans to a variety of housing providers and to persons and families of low- and moderate-income. While in active operation, the Partnership Fund allocated over $163 million to housing proposals financing 17,626 units.

In 2003, as part of a series of actions taken to close a serious budget gap, Item 111 G of the appropriations act directed the sale of the portfolio of outstanding loans and other assets of the Partnership Fund to VHDA.[8] A portion of the proceeds of the sale were paid to the general fund, while another portion was directed to the Commonwealth Priority Housing Fund, which in the near term provided a resource for addressing certain high priority housing needs. Ultimately, following the enactment of additional legislation during 2005, the remaining balance of the Priority Housing Fund was transferred to a community development bank inaugurated by the Commonwealth where it continued to provide a source of mortgage loan funding. A remnant of the Virginia Housing Partnership Revolving Fund remained on the books of the VHDA where it was subject to annual financial reporting.

With the passage of legislation establishing the Housing Trust Fund during the 2013 Session of the Virginia General Assembly,[9] VHDA assumed the role of administrator for the Fund, subject to program guidelines established by DHCD. For the purposes of the program and VHDA's financial reporting, the Virginia Housing Trust Fund received the investments previously held in the Partnership Revolving Fund. This effectively eliminated the Partnership Fund as a separate entry onto the books of the Authority, where the Housing Trust Fund replaced it.

Thus, this portion of the report, in accordance with the provisions of 36-150 of the Code of Virginia, nominally addresses the 2014 financial status of the Virginia Housing Partnership Revolving Fund. However, reflecting the altered status of the program, this report now addresses the net position, changes in net position, revenues and expenses associated with the Virginia Housing Trust Fund. The Virginia Housing Development Authority (VHDA), as administrator of a portion of the Fund, provided the material included in this report. The financial status report on the Fund was included in the VHDA financial statements for the years ended June 30, 2014 and

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[8] http://leg1.state.va.us/cgi-bin/legp504.exe?031+bud+21-111

[9] Chapter 754, 2013 Acts of Assembly: http://lis.virginia.gov/cgi-bin/legp604.exe?131+ful+CHAP0754+pdf

2013. The public accounting firm KPMG audited these statements (see the attached copies of the independent auditors' report). The Department of Housing and Community Development has received and reviewed a copy of these financial statements and concluded that they accurately reflect the status of the Fund.

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

Schedule of Net Position Held on Behalf of
Virginia Housing Trust Fund

June 30, 2014

		General operating accounts
Assets		
Cash	$	1,465
Investments (previously held in Virginia Partnership Revolving Fund)		265,600
Investments – Virginia Housing Trust Fund		166,700
Mortgage loans Receivable		576,824
Interest receivable – mortgage loans		79
Interest receivable - investments		98
	$	1,010,766
Liabilities and Net Position		
Other liabilities		23,783
Due to the Virginia Department of Housing and Community Development		165,128
Net position		821,855
	$	1,010,766

See accompanying independent auditors' report.

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

Schedule of Revenues, Expenses, and Changes in Net Positions Information -
Virginia Housing Trust Fund

Year ended June 30, 2014

		General operating accounts
Revenue		
Investment income	$	704
Fund contributions		576,824
Total revenues		577,528
Expenses		
Fund management fee		22,108
Net revenues over expenses		555,420
Fund distributions		
Net position at beginning of year		266,435
Net position at end of year	$	821,855

See accompanying independent auditor's report.

KPMG

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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, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Housing Development Authority as of June 30, 2014 and 2013, 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.

KPMG

Emphasis of Matter

As discussed in Note 1(v) to the financial statements, in fiscal year 2014, the Authority retrospectively adopted new accounting guidance in Government Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management Discussion and Analysis and Schedule of Funding Progress by the Plan Valuation Date on pages 1-10 and 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying supplementary information included in Schedules 2 through 9 on pages 49 through 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was 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 audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information included in Schedules 2 through 9 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

September 15, 2014

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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 basic 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, 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated September 15, 2014, which included a paragraph emphasizing that in fiscal year 2014, the Authority retrospectively adopted new accounting guidance in Government Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic 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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

KPMG

Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

September 15, 2014