

**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 2015**

The Virginia Housing Trust Fund and the 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 of the Code of Virginia 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 \$8 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.

In accordance with the requirements of § 36-150 of the Code of Virginia, DHCD presents the following document, which includes two sections.¹ Part I reviews recent activities associated with the operation of the Housing Trust Fund during the period since the close of FY 2015 as well as the impacts of funds allocated in 2013-2014. 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.

Part I: The Virginia Housing Trust Fund

Purpose and Background

The biennium budget for fiscal years 2015-16 allocated \$4,000,000 in the first year and \$4,000,000 in the second year to fund activities through the Virginia Housing Trust Fund. This follows the 2013-14 biennium budget which allocated \$8,000,000 to create the Virginia Housing Trust Fund.

At least 80 percent of the Fund is to be used for short, medium and long-term loans to reduce the cost of homeownership and rental housing. Up to 20 percent of the Fund may be used to provide grants for targeted efforts to reduce homelessness.

The entities charged with administering the Virginia Housing Trust Fund—the Department of Housing and Community Development (DHCD) and the Virginia Housing Development Authority (VHDA)—have extensive experience in implementing the activities needed to carry out the provisions of the Fund. VHDA originates and services loans on a regular basis through its

¹ <http://law.lis.virginia.gov/vacode/title36/chapter9/section36-150/>

bond and revenue programs. It also services loans made with HOME funds administered by DHCD. Both agencies, which are overseen by boards subject to gubernatorial appointment, have more than two decades of experience in developing housing policy, and structuring and implementing programmatic tools to operationalize those policies. DHCD and VHDA worked collaboratively to implement the provisions of the Virginia Housing Partnership Revolving Fund, Code of Virginia, § 36-141 through § 36-151.² Both DHCD and VHDA are skilled at packaging affordable housing projects that include a range of funding sources in order to leverage their resources. The budget language creating the Housing Trust Fund identifies leveraging as an important component of the Fund’s operation.

Input Into the Structure of the Housing Trust Fund

Significant stakeholder input was gathered leading up to the development of the initial Housing Trust Fund framework. Building on this foundation DHCD has met with representatives of the Virginia Housing Coalition to discuss proposed changes for the Trust Fund and listen to input from the Coalition’s membership. Additionally, one new facet of the Trust Fund, discussed in detail later, was presented as part of DHCD’s Consolidated Plan Input Session process. Through this effort DHCD convened five sessions across the Commonwealth, with a total of 175 attendees.

Action Plan: Input Sessions	
Location	Number of Attendees
Roanoke	30
Abingdon	32
Hampton	34
Prince William	29
Richmond	50

An online survey was also conducted as part of this Consolidated Planning process. There were a total of 98 responses.

Parameters of the Housing Trust Fund

The budget bill included language establishing the basic parameters for the Trust Fund. These included guidance on the allocation of funds for grants and loans, a statement describing the types of activities eligible for grants or loans, and a list of the types of organizations eligible to receive program funds. The budget direction also stressed the importance of considering opportunities for leveraging and providing flexibility in loan products.

To implement the provisions of the appropriations act, DHCD and VHDA are proposing to allocate funds through the broad categories shown on the following table. The intent of the

² <http://lis.virginia.gov/cgi-bin/legp604.exe?000+cod+TOC3600000000900000000000>

agencies is to encourage a variety of responses from eligible applicants so funds are deployed in a timely and strategic manner.

2015-16 Virginia Housing Trust Fund Allocation	
Loans	
Competitive Loan Pool	\$5,523,892
Comprehensive Neighborhood Revitalization Pilot	\$1,500,000
Grants	
Homelessness Reduction Competitive Grant Pool	\$1,000,000
Administration	160,000
Total	\$8,183,892*

**includes \$183,892 in unutilized funds from 2013-14*

Applications for the 2015-16 Housing Trust Fund have been received and are currently being evaluated.

Demand Summary

- Nearly \$1.8 million requested for the \$1 million in Homeless Reduction Grant
 - o 22 applicants
- Nearly \$18 million requested for the \$5.5 million in the Competitive Loan pool
 - o 31 applications
- Eight applications received for the Vibrant Communities Initiatives program, representing a total of over \$19 million in requests.

Affordable Housing Loan Program

At least 80 percent of the funds allocated to the Virginia Housing Trust Fund must be used to provide loans that reduce the costs of affordable rental housing and homeownership. Building on their previous experience with the Housing Trust Fund and the Virginia Housing Partnership Fund, the housing agencies have determined VHDA will provide the underwriting services needed to implement the key provisions of loans made through this program. DHCD, with the participation of VHDA, will structure the design of the loan component with sufficient flexibility to maximize the long-term affordability and sustainability of the housing projects receiving

assistance. They will also include provisions that encourage opportunities to include project participation from other public and private funding sources.

The loan program will have two distinct components. The main component will be loans offered through a competitive loan pool open to a variety of eligible projects accomplishing the fund's purposes. A second component will be dedicated to a new Comprehensive Neighborhood Pilot project.

Competitive Loan Pool

While the competitive loan pool will accommodate a wide array of possible projects, it will acknowledge the direction of a number of gubernatorial initiatives as well as the limited available funds by giving priority to demonstration projects that address articulated state housing policies. Such policies include supporting affordable, community housing options for persons with disabilities (including funding that could aid the state response to the DOJ settlement) and expanding permanent housing opportunities for persons experiencing homelessness.

Most of the funds in the Housing Development Loan Pool will be used to provide low-interest loans that are structured to meet the financing needs of specific projects. DHCD and VHDA anticipate that a majority of the loan pool will provide financial assistance for specific projects that address the affordable rental housing needs of very low-income citizens, while giving priority to projects that address critical housing needs mentioned in the previous paragraphs as well as other areas of need such as returning veterans. To assure the long-term viability of affordable rental projects, the agencies will give priority consideration to projects that have an identified strategy for financial sustainability, such as providing rental assistance to income-qualified tenants. In keeping with the direction that the loans provide flexible financing, the agencies will set repayment rates and terms for each individual loan from the Trust Fund. In addition, provisions of the loan program will encourage applicants to pursue leveraged funds from other sources such as LIHTC program tax credits, program income derived from the Neighborhood Stabilization Program (NSP 1 and 3), and other federal and local housing programs, such as HOME and the Community Development Block Grant programs.

As with many of its programs, DHCD will use a competitive process to select projects for funding. The maximum loan available to a single project will be capped at \$750,000. The criteria used to evaluate projects for funding will include the: (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. DHCD will rank competitive project applications using a standardized review with a 100-point scale. No project will be funded that scores below sixty percent. DHCD will make funding offers to the highest scoring projects in descending order until available funds are exhausted or all projects scoring above sixty percent have been funded. Applicants may be asked to provide additional information to finalize funding offers. Funding not allocated through the initial application process will be offered during subsequent round(s) with the final round of applications. Property funded through a Housing Trust Fund loan will be subject to a lien intended to ensure its continued use as targeted, affordable housing during a

specified period. The outstanding balance on the loan will be due in the event the affordability period is not met.

DHCD conducted How-to-Apply workshops in the summer of 2015 and set a proposal due date for September 3, 2015.

Comprehensive Neighborhood Revitalization Pilot

DHCD intends to initiate a pilot project which will combine multiple funding sources in order to fund comprehensive community projects. This effort will also consolidate DHCD project management and program compliance requirements where possible. The pilot will streamline, where possible, DHCD processes toward more strategic use of available resources.

Initial funding for the pilot will include a portion of the 2015-16 CDBG and HOME allocations. Pilot funding will also include Virginia Housing Trust Fund (\$1.5 million) and may include other funding sources where appropriate. At least \$4 million in state and federal resources will be set aside to fund the pilot. The pilot will be limited to two projects.

Each pilot project is anticipated to provide a 25 percent match in locally controlled resources based on the total amount of pilot funding included in the project. The match must be for hard costs only and may include locally controlled HOME funds, fee waivers, local government resources, donated real property, and/or other local funds (e.g., local foundation).

The selection of pilot projects will be implemented in a two phase process. The first phase was to submit an open letter of intent, the second phase requires a full proposal from those projects selected through a review panel. It is anticipated proposals will be due in January or February, 2016.

Full proposals will be invited for comprehensive projects selected from the letters of intent received. Proposals must clearly describe the overall comprehensive project and all project activities. A comprehensive project is a project that includes a range of activities for example, neighborhood revitalization, downtown redevelopment, homeowner rehabilitation, down payment assistance, rental project development, water/sewer, and/or other infrastructure.

The letters of intent will be reviewed by the DHCD review panel and selected for full proposals based on the following criteria:

- A plan and initial groundwork in place on a comprehensive project that includes at least a housing component;
- Demonstrated success with similar projects;
- Partnerships in place to execute the project; and
- Demonstrated capacity (financial and development team experience).

All invited proposals will be evaluated through a review committee based on the following scoring criteria:

- Alignment
- Need

- Project Readiness
- Capacity

Eligible projects must include a housing component as a key or significant part of the overall project. These projects must be structured to meet identified local needs and help to inform a larger scale application of the combined-resources process.

Homeless Reduction Grant Program

The budget *permits* the use of up to 20 percent of the funds allocated to the Virginia Housing Trust Fund to provide grants for activities to reduce homelessness.

In accordance with budget language, the Homeless Reduction Grant funds may be used for 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) suggests the Trust Fund could not serve as a significant, long-term source of rental assistance. However, it could be used to close temporary gaps for individuals, serving as bridge for individuals transitioning into rental arrangements with documented commitments of future rental assistance from other federal, state or local sources.

As with the loan program, projects will be selected for funding through a competitive application process. Applicants may apply for up to \$100,000. The application period will run in parallel with the loan program. The initial application period took place in Summer 2015. If required, subsequent application periods will follow the same schedule as the loan program. As with the loan program, DHCD will rank competitive project applications using a standardized review with 100-point scale. No project will be funded that scores below sixty percent. DHCD will make funding offers to the highest scoring projects in descending order until available funds are exhausted or all projects scoring above sixty percent have been funded. Applicants may be asked to provide additional information to finalize funding offers. Funding not allocated through the initial application process will be offered during a subsequent round(s). Any grant funds not allocated by December 1, 2015, will be rolled into the Competitive Loan Pool.

DHCD will select projects based on the following criteria: direct impact on an established state housing policy; sustainability; impact on local needs; impact on reducing homelessness; feasibility; and capacity. Priority will be given to housing stabilization services and predevelopment assistance that are directly related to a project proposed for funding through the Affordable Housing Loan Program.

Organizations Eligible for Virginia Housing Trust Fund Allocations

The budget specified several types of organizations as being eligible to receive funding through the Trust Fund. Local governments, local housing and redevelopment authorities, regional or statewide organizations providing affordable housing and homeless assistance/services to Virginia citizens and holding companies expressly created for owning and operating affordable

housing may apply for funding from the Virginia Housing Trust Fund. This would not preclude eligible organizations from contracting with a variety of other parties to assist in providing the housing and other resources required to satisfy the conditions of the grant or loan product.

Virginia Housing Trust Fund Administration and Management

Funding for the Housing Trust Fund is included in the Department of Housing and Community Development's budget. DHCD is to work in collaboration with the Virginia Housing Development Authority (VHDA) to carry out the provisions of the Fund. The two agencies partnered successfully to launch and implement the first iteration of the Housing Trust Fund and this model will be followed moving forward.

DHCD and VHDA have a proven record of accomplishment in jointly administering statewide housing initiatives. In the late 1980s, the General Assembly passed legislation creating the Virginia Housing Partnership Fund. It was created to improve the quality and affordability of housing throughout the Commonwealth and was jointly administered by DHCD and VHDA. DHCD set policy, provided technical assistance to its housing development partners in responding to funding opportunities and selected projects for funding through a competitive application process. VHDA provided underwriting services and originated and serviced loans.

This model worked well during the years the Partnership Fund received occasional new infusions of funding through the budget. In the early 2000s, the Partnership Fund ceased receiving appropriations and the budget directed the sale of its portfolio to VHDA to provide the additional revenue needed to close gaps in the overall state budget. However, the organizational framework of the Virginia Housing Partnership Fund remains intact within the Code of Virginia (§§ 36-141 through 36-151) where it provides a convenient template for administering the Housing Trust Fund contained in the current biennial budget. For administrative and organizational efficiency, it is recommended that the resources of the Virginia Housing Trust Fund be placed within the Partnership Fund. This would avoid the need to create parallel administrative structures that effectively perform the same functions.

Based on this model, DHCD and VHDA will jointly determine the policy parameters of the Housing Trust Fund. Specific aspects of Trust Fund implementation will be handled by the individual agencies in accordance with their designated areas of expertise and responsibility.

With respect to the loan offerings, DHCD will provide technical assistance during project development. VHDA, drawing on its forty-year experience in mortgage lending as the state's housing finance agency, will provide project underwriting for the Affordable Housing Loan Program and perform loan origination, servicing and monitoring for all program loans. DHCD, which has more than thirty years experience in managing federal and state grant and loan programs for housing and community development, as well as extensive involvement in homeless programs, will administer the process to solicit applications for both the Affordable Housing Loan Program and the Homeless Reduction Grant Program. Overall responsibility for the ongoing administration and monitoring of grants made through the Homeless Reduction Grant Program will fall to DHCD.

Finally, because the various components of the Trust Fund will require substantial administrative effort on the part of the housing agencies, a total of no more than \$160,000 will be set aside and considered as eligible costs of the Fund.

Summary of Changes

The 2015-16 Program Design has some features which have evolved since the 2013-14 framework. Two elements will no longer be funded as a response to the changing market and landscape of affordable housing in the Commonwealth. In the initial implementation, two programs were incorporated to counteract the impact of foreclosures on Virginia communities—particularly in areas with the highest foreclosure rates. The Foreclosure/Homeowner Counseling fund, operated at a funding level of \$500,000, was a set aside for grants for foreclosure counseling in areas of the Commonwealth with the highest incidence of foreclosure. Grants were allocated in conjunction with VHDA’s housing and foreclosure counseling activities. The second, the Trust Stabilization Fund, allowed locally-based organizations to acquire eligible homes, primarily lender-owned (REO) properties in the areas hardest hit by the foreclosure crisis offer deferred loans averaging \$15,000 to include local administrative costs and the cost of to remediate deficiencies in the condition of the home and place it in a marketable state. While there continue to be foreclosures in Virginia, the rate has diminished and the continued support is no longer necessary. There is still a very active foreclosure acquisition, rehabilitation, and resale program, the Neighborhood Stabilization program, and housing counseling services are still available through VHDA and a network of HUD-approved grantees. For these reasons the two activities related to foreclosures have been removed.

The introduction of the Comprehensive Neighborhood Revitalization Pilot represents the other change in this Program Design. This activity is described in detail in a previous section.

Evaluation and Analysis of Outcomes

The 2014-2016 budget incorporated the requirement for reporting on the performance of the Virginia Housing Trust Fund. Sections 103 F & I.2 of the Budget require that the following outcomes are reported:

F. As part of the plan required by § 36-142 E, Code of Virginia, the department shall also report on the impact of the loans and grants awarded through the fund, including but not limited to, (i) the number affordable rental housing units repaired or newly constructed, (ii) the number of individuals receiving down payment and/or closing assistance, and (iii) the accomplishments in reducing homelessness achieved by the additional support provided through the fund.³

The number of individuals receiving down payment and/or closing assistance is not included in the reporting as it has not been included in the program design for the Virginia Housing Trust Fund. This is consistent with the creation of the fund as the enabling legislation states the fund *may* provide funds to be used for down payment and closing cost assistance for homebuyers. The agencies anticipate that additional outcome measures will include housing units provided,

³ <http://budget.lis.virginia.gov/item/2015/1/HB1400/Enrolled/1/103/>

with a special focus on units provided to hard-to-serve target populations; services provided to support reducing homelessness; the mitigation of the adverse impacts of foreclosure on communities by the return of properties to owner occupancy; and the degree to which other financial resources can be leveraged for housing.

Both public input and the perspectives of state agencies with concerns about housing for a number of special needs categories expressed the desire to see resources directed toward areas of need addressed through crosscutting state policies. Improved interagency collaboration and communication has clearly indicated a pervasive lack of affordable housing impedes progress on a range of state policies. The evaluation will examine the extent to which the Trust Fund is able to facilitate progress in addressing areas of priority need.

Once all Housing Trust Fund resources have been allocated, DHCD and VHDA will advise the Senate Finance and House Appropriation Committee chairs of the types of projects, uses of funds and locations associated with the grant or loan awards.

Summary of 2013-14 Utilization

2013-14 Virginia Housing Trust Fund Allocation	
Loans	
Competitive Loan Pool	\$5,400,000
Foreclosure Rehabilitation Loans	\$1,000,000
Grants	
Competitive Grant Pool (Homeless Reduction)	\$930,000
Foreclosure/Homeowner Counseling	\$500,000
Administration	\$170,000
Total	\$8,000,000

Demand Summary

- Nearly \$5 million requested for the \$1 million in Homeless Reduction Grant
 - o 58 applicants
 - o 10 awards offered
- Over \$15 million requested for the \$5.4 million in the Competitive Loan pool
 - o 29 applications
 - o Nine awarded

Summary Points

- Approximately \$5.3 million in HTF resources invested in creating or preserving affordable housing
 - o Many projects serving very low and extremely low income populations that are very hard to serve, such as chronically homeless and persons with intellectual and developmental disability
 - o Total project costs exceed \$40 million
 - o Over 300 affordable housing units will be created or preserved

- 250 individuals and families assisted through homeless reduction and permanent supportive housing assistance.
- Over 2,400 individuals served with client education and over 2,900 served through help with resolving or preventing mortgage delinquency
- Over 34 foreclosed properties to date have been acquired and 16 have been resold and are now in productive use again.

Housing Trust Fund Snapshot 2015-2016 Allocation

Trust Fund Components & Features	Grants	Loan		Totals
	Homelessness Reduction	Comprehensive Neighborhood Revitalization Pilot	Competitive Loan Pool	
Purpose	Provide competitive grants to local/regional partners providing temporary (<1 year) rental assistance; housing stabilization services in permanent supportive housing; and pre-development for long-term housing opportunities for the homeless. Require coordination with CoC.	<p>Competitive process to combine multiple funding sources in order to fund comprehensive community projects.</p> <p>Trust Fund resources will be directed to activities supporting the creation or preservation of affordable housing opportunities.</p> <p>Will consolidate project management and program compliance requirements where possible.</p>	<p>Through a competitive process, provide local/regional partners with low-interest loans that will assist in financing housing projects that meet critical state housing policies.</p> <p>Project underwriting will tailor repayment rates and terms to specific project needs. The highest priority will go to those demonstrating financial sustain-ability and leveraging.</p> <p><i>Prioritize projects serving special needs populations—ID/DD, Severe mental illness, Permanent Supportive Housing</i></p>	
Funding Available	\$1,000,000	\$1,500,000	\$5,523,892	\$8,023,892
Project Caps	\$100,000 per project	\$2,000,000 per project; combined with other sources of funding	\$750,000 per project	

*includes \$183,892 in unutilized funds from 2013-14. Administrative funds of \$160,000 to be included.

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.⁴ 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, VHDA assumed the role of administrator for the Fund, subject to program guidelines established by DHCD.⁵ 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 2015 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, 2015 and 2014. 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.

⁴ <http://leg1.state.va.us/cgi-bin/legp504.exe?031+bud+21-111>

⁵ Chapter 754, 2013 Acts of Assembly: <http://lis.virginia.gov/cgi-bin/legp604.exe?131+ful+CHAP0754+pdf>



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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, 2015 and 2014, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management Discussion and Analysis and Schedule of Funding Progress by the Plan Valuations Dates on pages 1-9 and 45 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 audits were conducted for the purpose of forming an opinion on the Authority's basic financial statements. The supplementary information included in Schedules 2 through 9 on pages 46 through 55 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information included in Schedules 2 through 9 on pages 46 through 55 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2015 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 11, 2015

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

Schedule 6

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

June 30, 2015

	General operating accounts
Assets	
Cash	\$ 2,732
Investments (previously held in Virginia Partnership Revolving Fund)	265,600
Investments - Virginia Housing Trust Fund	163,300
Mortgage loans Receivable	560,208
Interest receivable – investments	79
	\$ 991,919
Liabilities and Net Position	
Other liabilities	18,012
Due to Virginia Department of Housing and Community Development	165,128
Net position	808,779
	\$ 991,919

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 Position Information –
 Virginia Housing Trust Fund

Year ended June 30, 2015

	Revenues	General operating accounts
Investment income		\$ 986
Fund contributions		22,108
Total revenues		<u>23,094</u>
	Expenses	
Fund management fee		<u>16,153</u>
Net revenues over expenses		6,941
Fund distributions		20,016
Net position at beginning of year		<u>821,854</u>
Net position at end of year		<u>\$ 808,779</u>

See accompanying independent auditors' report.



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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, 2015, 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 11, 2015.

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 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.



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 11, 2015