

**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 Revolving
Fund**

**Submitted by:
The Department of Housing and Community Development
November 2016**

The Virginia Housing Trust Fund and the Financial Status of the Virginia Housing Partnership Revolving 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 requirement 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 2016 as well as the impacts of funds allocated in 2015-2016. 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 2016-2018 allocated \$5,500,000 in the first year and \$5,500,000 in the second year to fund activities through the Virginia Housing Trust Fund. This follows the 2014-16 Biennium Budget which allocated \$8,000,000 to support the activities of the 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 bond

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

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 2012 Budget Bill (Special Session I) included language establishing the basic parameters for the Trust Fund. These parameters 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.

² <http://law.lis.virginia.gov/vacode/title36/chapter9/>

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

2016-17 Virginia Housing Trust Fund Allocation	
Loans	
Competitive Loan Pool	\$3,312,000
Vibrant Community Initiative	\$1,000,000
Grants	
Homelessness Reduction Competitive Grant Pool	\$850,000
Family Housing Stabilization	\$250,000
Administration	\$88,000
Total	\$5,500,000

Applications for the 2016-2017 Housing Trust Fund have been received and are currently being evaluated.

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 Revolving 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. A majority of the loans will be offered through a competitive loan pool open to a variety of eligible projects accomplishing the Fund’s purposes. The second component will be dedicated to the Vibrant Communities Initiative.

Competitive Loan Pool

While the competitive loan pool accommodates a wide array of possible projects, it acknowledges the direction of a number of gubernatorial initiatives as well as 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. New in 2016 is a consolidated application process which will allow applicants to apply for three sources of funding with one application. The Affordable and Special Needs Housing Consolidated Application will combine Virginia Housing Trust Fund monies with Federal HOME and Federal Housing Trust Fund monies. DHCD conducted How-to-Apply workshops for the Consolidated Application in the summer and fall of 2016 and set proposal due dates for November 30, 2016 and May 31, 2017.

Most of the funds in the Competitive 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 (CDBG) programs.

As with many of its programs, DHCD will use a competitive process to select projects for funding. The maximum Virginia Housing Trust Fund amount available to a single project will be capped at \$700,000 for affordable housing projects and \$800,000 for projects targeting special needs and extremely low income populations. 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. 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.

Vibrant Communities Initiative

In 2015-2016 DHCD initiated a pilot project, the Vibrant Communities Initiative, which combined multiple funding sources in order to fund comprehensive community projects. This effort also consolidated DHCD project management and program compliance requirements where possible. Initial funding for the Vibrant Communities Initiative included a portion of the 2015-2016 CDBG and HOME allocations as well \$1,500,000 from the Trust Fund. In the first round of funding, approximately \$5 million total in state and federal resources was set aside to fund comprehensive community projects in the City of Richmond and Montgomery County.

The Vibrant Community Initiative will continue in 2016-2017 with \$1 million in funding from the Virginia Housing Trust fund to be combined with approximately \$3.5 million in funding from CDBG, HOME, and the Virginia Housing Development Authority for a total of \$4.5 million to be spent on comprehensive community projects.

The selection of projects will be a two phase process. The first phase is to submit an open letter of intent; the second phase requires a full proposal from those projects selected through a review panel. Letters of intent were due in October 2016 with full proposals tentatively due in February of 2017.

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 previous 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 initial application period will take place in November 2016. As with the loan program, DHCD will rank competitive project applications using a standardized review. 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.

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 efforts to reduce the number of homeless youth and families with approximately \$250,000 dedicated to a pilot project focused on housing stabilization for families to be coordinated with the Governor's Challenged Schools initiative

Organizations Eligible for Virginia Housing Trust Fund Allocations

The 2012 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 Revolving 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.

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 loan programs 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.

Summary of Changes

The 2016-2017 Program Design has some features which have evolved since the 2015-16 framework. Notably, the Competitive Loan Pool will be part of the previously described Affordable and Special Needs Housing Consolidated Application Process. This will streamline the overall application process and make three funding sources available through a single application. The 2016-2017 program year will also see the continuation of the previous years' Vibrant Communities Initiative with \$1,000,000 from the Fund allocated for comprehensive community projects. Finally, new in 2016-2017 will be approximately \$250,000 to support a pilot project focused on housing stabilization for families to be coordinated with the Governor's Challenged Schools initiative.

Summary of 2015-16 Utilization

2015-2016 Virginia Housing Trust Fund Allocation	
Loans	
Competitive Loan Pool	\$5,523,892
Vibrant Communities Initiative	\$1,500,000
Grants	
Competitive Grant Pool (Homeless Reduction)	\$1,000,000
Administration	\$160,000
Total	\$8,183,892*

**Includes carryover from previously unspent funds*

2015-2016 Demand Summary

- Nearly \$1.5 million requested for the \$1 million in Homeless Reduction Grants
 - o 18 applicants
 - o 12 awards offered
- Nearly \$17.5 million requested for the \$5.7 million in the Competitive Loan Pool funds
 - o 31 applications
 - o 11 awarded

Summary Points

- Approximately \$5.7 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 exceeded \$123 million
 - o 542 affordable housing units will be created or preserved
- 250 individuals and families will be assisted through homeless reduction and permanent supportive housing assistance.

- \$1.5 million awarded through the Vibrant Community Initiative to support comprehensive community projects; includes \$5.2 million in funds leveraged through housing, community, and economic development programs for total development costs in excess of \$10 million

Housing Trust Fund Snapshot: 2016-2017 Allocation

Trust Fund Components & Features	Grants	Loan		Totals
	Homelessness Reduction	Vibrant Community Initiative	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 sustainability and leveraging.</p> <p><i>Prioritize projects serving special needs populations—ID/DD, Severe mental illness, Permanent Supportive Housing</i></p>	
Funding Available	\$1,100,000	\$1,000,000	\$3,312,000	\$5,500,000*
Project Caps	\$100,000 per project; \$250,000 focused on Family Housing Stabilization Projects	\$2,225,000 per project; combined with other sources of funding	\$700,000 per affordable housing project/ \$800,000 for projects focused on special needs and very low income housing	

*Administrative costs are approximately \$88,000

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.³ 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.⁴ For the purposes of the program and VHDA's financial reporting, the Virginia Housing Trust Fund received the investments previously held in the Partnership 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 2016 financial status of the Virginia Housing Trust Fund and the former Virginia Housing Partnership Revolving Fund. The unaudited status of the Virginia Housing Trust and the former Partnership Fund is reflected as of September 30, 2016 (pages 13-16 attached below). 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 Housing Trust Fund was included in the VHDA financial statements for the year ended June 30, 2016. The public accounting firm KPMG audited these statements (pages 17-21 attached

³ <http://leg1.state.va.us/cgi-bin/legp504.exe?031+bud+21-111>

⁴ Chapter 754, 2013 Acts of Assembly: <http://lis.virginia.gov/cgi-bin/legp604.exe?131+ful+CHAP0754+pdf>

below). 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 TRUST FUND
Statement of Net Position - September 30, 2016
Unaudited

Position:

Cash	\$ 912.99
Investments (previously held in Virginia Partnership Revolving Fund)	2,211,200.00
Investments - Virginia Housing Trust Fund	-
Mortgage Loans Receivable	2,562,144.14
Interest Receivable - Investments	377.52
Interest Receivable - Mortgage Loans	<u>1,197.34</u>
 Total Assets	 \$ 4,775,831.99

Liabilities & Net Position:

VHTF P&I Liabilities	\$ 5,205.44
Due to DHCD	1,940,128.00
Yearly Management Fee Due to VHDA	-
Total Liabilities	<u>1,945,333.44</u>
 Net Position (previously held by VPRF)	 265,600.00
Net Position (held by VHFT)	<u>2,564,898.55</u>
Total Net Position	<u>2,830,498.55</u>
 Total Liabilities and Net Position	 <u>\$ 4,775,831.99</u>

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VIRGINIA HOUSING TRUST FUND
Statement of Revenues, Expenses, and Changes in Net Position
Month Ended September 30, 2016 and FYTD
Unaudited

	MONTH	YEAR TO DATE
<u>Revenues:</u>		
MF Home Interest		\$ -
Interest Income - Investments	568.64	\$ 1,576.62
Total Revenues	568.64	1,576.62
 <u>Expenses</u>		
Miscellaneous Expense	-	-
Fund Management Fee	-	-
Total Expenses	-	-
Excess of Revenues over Expenses	568.64	1,576.63
Beginning Net Position (previously held by VPRF)		265,600.00
Beginning Net Position		2,518,592.66
VHT Fund Decrease 1, 2	49,091.93	44,729.26
Fund Contributions/(Distributions)	-	-
Ending Net Position		\$ 2,830,498.55

1 Note: The decrease in fund is due to Principal collected on loans for September '16.

2 Note: Management Fee paid with VHDA Reach Funds.

VIRGINIA HOUSING TRUST FUND
Cumulative Operations Month Ending September 30, 2016
Unaudited

	MONTH	CUMULATIVE
<u>Funds Available to Lend</u>		
Beginning Balance (previously held by VPRF)		\$ 265,600.00
Beginning Balance VHTF		2,518,592.66
Beginning Balance		\$ 2,784,192.66
Fund Increases:		
Interest Income - Investments	568.64	1,576.63
VHT Fund Increase	-	-
Fund Contributions - Management Fee	-	-
Total Increases	\$ 568.64	\$ 1,576.63
Fund Decreases:		
VHT Fund Decrease 1, 2	(49,091.93)	(44,729.26)
Fund Distributions (Contributions)	-	-
Fund Management Fee	-	-
Total Decreases	\$ (49,091.93)	\$ (44,729.26)
Net Change	\$ 49,660.57	\$ 46,305.89
Net Position		\$ 2,830,498.55

1 Note: The decrease in fund is due to Principal collected on loans for September '16.

2 Note: Management Fee paid with VHDA Reach Funds.

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, 2016

	General operating accounts
Assets	
Cash	\$ 902
Investments	1,459,000
Mortgage loans receivable	2,568,691
Interest receivable – mortgage loans	1,036
Interest receivable – investments	716
	\$ 4,030,345
Liabilities and Net Position	
Other liabilities	\$ 4,748
Due to Virginia Housing Development Authority	51,276
Due to Virginia Department of Housing and Community Development	1,190,128
Net position	2,784,193
	\$ 4,030,345

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, 2016

	Revenues	General operating accounts
Investment income		\$ 2,054
Grants received		16,153
Total revenues		<u>18,207</u>
	Expenses	
Fund management fee		51,276
Net expenses over revenue		(33,069)
Net fund contributions/(distributions) for the year		2,008,483
Net position at beginning of year		808,779
Net position at end of year		<u>\$ 2,784,193</u>

See accompanying independent auditors' report.

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

Schedule of Net Position Held on Behalf of
Commonwealth Priority Housing Fund

June 30, 2016

Assets	
Cash	\$ 6,939
Investments	3,474,500
Interest receivable – investments	1,201
Receivable due from DHCD	425,000
Mortgage and other loans receivable, net	3,901,441
Interest receivable – mortgage loans	833
Miscellaneous receivables	63,439
Total assets	<u>\$ 7,873,353</u>
Liabilities and Net Position	
Other liabilities	\$ 127,904
Due to Virginia Housing Development Authority	25,245
Net position	7,720,204
Total liabilities and net position	<u>\$ 7,873,353</u>

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 –
Commonwealth Priority Housing Fund

Year ended June 30, 2016

	Revenues	General operating accounts
Mortgage loan income		\$ 10,010
Investment income		8,352
Grants received		22,988
Total revenues		<u>41,350</u>
	Expenses	
Fund management fees		24,920
Miscellaneous expenses		10,000
Total expenses		<u>34,920</u>
Net revenues under expenses		6,430
Net fund contributions/(distributions) for the year		696,813
Net position at beginning of year		7,016,961
Net position at end of year		<u>\$ 7,720,204</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, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated September 13, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those



provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

KPMG LLP

September 13, 2016