West Virginia Housing Development Fund

AUDITED FINANCIAL STATEMENTS

For the years ended June 30, 2007 and 2006

Audited Financial Statements

WEST VIRGINIA HOUSING DEVELOPMENT FUND

For the Years Ended June 30, 2007 and 2006

Audited Financial Statements

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
West Virginia Housing Development Fund
Charleston, West Virginia

We have audited the accompanying statement of net assets of the West Virginia Housing Development Fund (the Fund), a component unit of the State of West Virginia, as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of management. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Housing Development Fund as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Gibbons & Kawash

August 22, 2007

707 VIRGINIA STREET, EAST | SUITE 300 | CHARLESTON, WV 25301 | PHONE: 304.345.8400 | FAX: 304.345.8451

INTRODUCTION

As a public body with statewide responsibility for housing, the West Virginia Housing Development Fund (the Fund) currently operates several programs to provide safe and affordable housing for residents and families in West Virginia. Through June 30, 2007, the Fund has provided assistance for more than 101,000 housing or housing-related units.

The permanent staff of the Fund consists of 106 persons, including professional staff members qualified in the fields of accounting, appraisal, finance, law, mortgage underwriting, mortgage loan servicing, secondary mortgage markets, planning, architecture, cost estimation, construction, inspection, housing management, and marketing. The Fund provides services in these fields for its programs as required and utilizes professional consulting services from time to time to supplement its own staff.

The Fund has 24 bond issues totaling $733,670,000 par amount outstanding under its Housing Finance Bond Resolution and one bond issue totaling $15,000,000 outstanding under its General Economic Development Bond Resolution at June 30, 2007. The Housing Finance Bonds and the Economic Development Financing Bonds are rated "AAA" by Standard & Poor's Public Ratings Services (S&P), a Division of McGraw-Hill Companies, and "Aaa" by Moody's Investors Service, Inc. (Moody's).

Fitch, Inc. rates the Fund's unsecured, short-term general obligation debt pledge "F-1+". The Fund's unsecured long-term general obligation debt pledge is rated "Aaa" by Moody's and "AAA" by S&P. The Fund is the first and only housing finance agency ever to receive such ratings on its long-term general obligation debt pledge. These ratings are not assigned to any particular issue of debt, but rather represent an overall credit assessment of the Fund's long-term general obligation pledge.[1]

The financial transactions of the Fund are recorded in relation to its various programs, which are more fully explained in the Notes to the Financial Statements. These programs consist of the General Account, Housing Finance Bond Program, Other Loan Programs, Land Development Program, Bond Insurance Account, and Federal Programs. These were established in accordance with the West Virginia Housing Development Fund Act (the Act), the bond resolutions or at management's discretion. Restricted net assets of the Fund include the net assets of the Housing Finance Bond Program, the Economic Development Financing Bonds, Land Development Program, Bond Insurance Account, and Federal Programs, which are restricted by the bond resolutions, the Act, or federal regulations.

As management of the Fund, we offer readers of the Fund's financial statements this narrative overview and analysis of the Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets as of and for the fiscal years ended June 30, 2007, 2006 and 2005.

[1] An explanation of the Moody's ratings may be obtained by writing to Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; an explanation of the S&P ratings may be obtained by writing to Standard & Poor's Public Ratings Services, 55 Water Street, New York, New York 10041; and an explanation of the Fitch rating may be obtained by writing to Fitch, Inc., One State Street Plaza, New York, New York 10004. There is no assurance that such ratings will be maintained for any period of time or that such ratings will not be withdrawn or revised downward by Moody's, S&P, or Fitch if, in their judgment, circumstances so warrant. Such actions, if taken, could have an adverse effect on the market price of bonds issued by the Fund.

USING THIS REPORT

This report consists of a series of financial statements: the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows. These statements provide information about the activities of the Fund for each period presented.

The financial statements of the Fund are prepared in conformity with accounting principles generally accepted in the United States for state housing finance enterprise funds. The Statements of Net Assets represent the difference between the assets and liabilities of the Fund and include all assets and liabilities using the basis of accounting described above. Over time, increases or decreases in the Fund's net assets are one indicator of whether its financial status is improving, stable, or deteriorating. There are also other factors that should be considered when reviewing the operational results of the Fund, such as changes in the interest rate environment, bond market, changes to state and federal laws governing the Fund's programs, changes to the tax code, and the real estate market in West Virginia. The Statements of Revenues, Expenses, and Changes in Net Assets of the Fund reflect revenues, such as interest on loans, loan-servicing fees, interest on investment securities, expenses, such as loan fees, program expenses, administrative expenses, and interest on outstanding debt. The Notes to the Financial Statements provide information that is essential to fully understand the data provided in the financial statements.

FINANCIAL HIGHLIGHTS

Following is a comparison of the Fund's condensed Statements of Net Assets at June 30:

	2007	2006	2005
		(Dollars in thousands)	
ASSETS			
Current assets	**$ 93,912**	$ 85,898	$ 118,620
Noncurrent assets:			
Mortgage loans & Restricted mortgage loans, net of allowance for losses	**895,274**	823,648	783,501
Restricted Federal Program mortgage loans, net of allowance for losses	**61,648**	54,555	49,212
Restricted cash and cash equivalents	**51,287**	61,084	52,109
Restricted investments	**88,964**	120,437	98,356
Other assets & Restricted other assets, net of allowance for losses	**4,365**	4,662	8,888
Total assets	**1,195,450**	1,150,284	1,110,686
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and other liabilities	**21,924**	20,181	21,469
Accrued interest payable	**6,580**	6,050	5,821
Bonds payable	**24,925**	58,795	73,185
Noncurrent liabilities:			
Bonds payable, net	**725,914**	675,395	634,715
Federal program advances	**63,486**	56,885	51,906
Total liabilities	**842,829**	817,306	787,096
Net assets - Restricted	**270,616**	259,514	260,964
Net assets - Unrestricted	**82,005**	73,464	62,626
TOTAL NET ASSETS	**$ 352,621**	$ 332,978	$ 323,590

Below is additional discussion of the significant financial statement items and the changes in those items over the prior two years due to recent events and activities of the Fund, current economic factors, and other factors affecting the Fund's financial and programmatic operations.

Current assets

The increase of $8,014,000 (9.3%), in *Current assets* from 2006 to 2007 was primarily due to the increase in cash balances from program receipts in excess of program disbursements.

The decrease of $32,722,000 (27.6%), in *Current assets* from 2005 to 2006 was primarily due to the decrease in cash balances resulting from the redemption of Housing Finance Bonds and scheduled debt service payments.

Mortgage loans & Restricted mortgage loans, net of allowance for losses

The increase of $71,626,000 (8.7%) in *Mortgage loans & Restricted mortgage loans, net of allowance for losses* from 2006 to 2007 was primarily due to mortgage loan originations of $179,442,000, exceeding loan prepayments and repayments of $103,346,000. Mortgage loan balances in the Housing Finance Bond Program increased approximately $64,091,000 from 2006 to 2007. Other loans increased approximately $7,535,000 over the same period.

The increase of $40,147,000 (5.1%) in *Mortgage loans & Restricted mortgage loans, net of allowance for losses* from 2005 to 2006 was primarily due to mortgage loan originations of $156,829,000, exceeding loan prepayments and repayments of $113,582,000. Mortgage loan balances in the Housing Finance Bond Program increased approximately $24,617,000 from 2005 to 2006. Other loans increased approximately $15,530,000 over the same period.

Restricted Federal Program mortgage loans, net of allowance for losses

This line item consists of the United States Department of Housing and Urban Development's (HUD) HOME Investment Program (HOME) mortgage loans. The fluctuations from year to year represent the net HOME program loans originated during the years presented.

Restricted cash and cash equivalents

The decrease of $9,797,000 (16.0%) in *Restricted cash and cash equivalents* from 2006 to 2007 was primarily due to the decrease in the balance of bond proceeds available for the purchase of single family mortgage loans.

The increase of $8,975,000 (17.2%) in *Restricted cash and cash equivalents* from 2005 to 2006 was primarily due to the increase in the balance of bond proceeds available for the purchase of single family mortgage loans and the origination of economic development loans.

Restricted investments

The decrease of $31,473,000 (26.1%) in *Restricted investments* from 2006 to 2007 and the increase of $22,081,000 (22.5%) in *Restricted investments* from 2005 to 2006 was primarily due to the investment of the Housing Finance Bonds 2006 Series B proceeds in the amount of $30,000,000 in fiscal 2006 and the maturity of the investment in fiscal 2007. These bonds had a mandatory tender date of April 9, 2007 at which time they were converted to long-term bonds for the purchase of single family mortgage loans. Also contributing to the fluctuations is the net effect of investment purchases, redemptions, maturities and amortization and the change in fair value of investments as required by Governmental Accounting Standards Board (GASB) Statement No. 31. This statement requires certain investments to be recorded at fair value and the unrealized gains or losses be reported in the Statements of Changes in Net Assets.

The following summary illustrates the changes in Restricted investments as of June 30:

	2007	2006	2005
		(Dollars in thousands)	
Balance at beginning of fiscal year	$ 120,437	$ 98,356	$ 97,022
Sales, maturities and amortization	(34,202)	(6,300)	(17,522)
Purchases	2,408	35,398	14,589
Increase (decrease) in fair value of investments	321	(7,017)	4,267
Balance at end of fiscal year	$ 88,964	$ 120,437	$ 98,356

Other assets and Restricted other assets, net of allowance for losses

The decrease of $297,000 (6.4%) in *Other assets and Restricted other assets, net of allowance for losses* from 2006 to 2007 was primarily due to the sale of various foreclosed properties.

The decrease of $4,226,000 (47.5%) in *Other assets and Restricted other assets, net of allowance for losses* from 2005 to 2006 was primarily due to the sale of multifamily foreclosed properties in the amount of $2,770,000 and an overall decrease of $1,826,000 in other foreclosed properties.

Accounts payable and other liabilities

The increase of $1,743,000 (8.6%) in *Accounts payable and other liabilities* from 2006 to 2007 was primarily due to a $1,274,000 increase in escrow funds held on behalf of others and a $400,000 good faith deposit received in June 2007 for the Housing Finance 2007 Series B Bonds issued in July 2007.

The decrease of $1,288,000 (6.0%) in *Accounts payable and other liabilities* from 2005 to 2006 was primarily due to a $817,000 decrease in the unrealized gain on investments rebate liability.

Bonds payable, current and noncurrent

As illustrated in the following schedule, the changes in bonds payable were due to the early redemption of bonds, scheduled debt service payments, and new bonds issued. The increase in the balance of bonds payable generally accounts for the increase in accrued interest payable in 2007. See *Note D – Bonds payable, current and noncurrent*.

		2007	2006	2005
			(Dollars in thousands)	
Balance at beginning of the fiscal year				
Bonds payable - current		$ 58,795	$ 73,185	$ 41,035
Bonds payable - noncurrent		675,395	634,715	646,120
Debt issued:	Economic Development Financing Bonds		15,000	-
	Housing Finance Bonds *(including premium)*	97,289	130,000	125,110
Debt paid:	Scheduled Debt Service - Bonds payable	(50,180)	(19,560)	(20,050)
	Early Redemptions	(30,340)	(99,150)	(84,315)
Amortization of bond premiums		(120)	-	-
Balance at end of the fiscal year		$ 750,839	$ 734,190	$ 707,900
Bonds payable - current		$ 24,925	$ 58,795	$ 73,185
Bonds payable - noncurrent		725,914	675,395	634,715
Total bonds payable		$ 750,839	$ 734,190	$ 707,900

Federal program advances

The increase of $6,601,000 (11.6%) and $4,979,000 (9.6%) in *Federal program advances* from 2006 to 2007 and from 2005 to 2006, respectively, is due to the increase in the outstanding balance of Federal Programs mortgage loans as a result of loans originated under the HOME program.

Total Net Assets improved by $9,388,000 (2.9%) from June 30, 2005 to June 30, 2006. From June 30, 2006 to June 30, 2007, *Total Net Assets* improved another $19,643,000 (5.9%) as the net financial position of the Fund increased to $352,621,000 at June 30, 2007.

Following is a comparison of the Fund's condensed Statements of Revenues, Expenses, and Changes in Net Assets for the fiscal year ended June 30:

	Fiscal Year Ended June 30		
	2007	**2006**	**2005**
	(Dollars in thousands)		
REVENUES			
Interest on loans	**$ 52,075**	$ 49,652	$ 50,377
Pass-through grant revenue	**59,845**	55,352	50,590
Fee revenue	**8,201**	6,904	7,429
Net investment earnings (non-operating)	**13,259**	4,103	11,693
Other	**654**	587	1,230
Total Revenues	**134,034**	116,598	121,319
EXPENSES			
Pass-through grant expense	**59,845**	55,352	50,590
Interest and debt expense (non-operating)	**36,812**	34,125	34,370
Loan fees expense	**5,984**	5,280	4,996
Program expenses, net	**3,477**	3,877	4,729
Administrative expenses, net	**8,273**	8,576	8,637
Total Expenses	**114,391**	107,210	103,322
CHANGES IN NET ASSETS	**$ 19,643**	$ 9,388	$ 17,997

Interest on loans

The increase of $2,423,000 (4.9%) in *Interest on loans* from 2006 to 2007 was primarily due to an increase in mortgage loan balances in the amount of $71,626,000. However, the average loan rate decreased from 6.06% at June 30, 2006 to 5.96% at June 30, 2007.

The decrease of $725,000 (1.4%) in *Interest on loans* from 2005 to 2006 was primarily due to a decrease in the weighted average interest rate on the mortgage loan portfolio of 6.17% in June 2005 to 6.06% in June 2006 offset by a $40,147,000 increase in loan balances.

Pass through grant revenue and Pass through grant expense

This line item represents federal funds received and disbursed to sub-recipients under Federal Programs. The increase of $4,493,000 (8.1%) from 2006 to 2007 and $4,762,000 (9.4%) from 2005 to 2006 was due to higher volume of activity in the HOME program for the fiscal years.

Fee revenue

The increase of $1,297,000 (18.8%) in *Fee revenue* from 2006 to 2007 was primarily due to an increase of $1,117,000 in multifamily prepayment penalties.

The decrease of $525,000 (7.1%) in *Fee revenue* from 2005 to 2006 was primarily due to a decrease of $492,000 in multifamily prepayment penalties.

Net investment earnings

Net investment earnings decreased $7,590,000 (64.9%) from 2005 to 2006 and increased $9,156,000 (223.2%) from 2006 to 2007 in the comparison of revenues and expenses above. However, *Net investment earnings* include unrealized gains and losses in the fair market value of investments at 2005, 2006, and 2007 as required by GASB Statement No. 31. As shown in the schedule below, the Fund's investment earnings, adjusted for the unrealized gains or losses, increased 30.3% from 2005 to 2006 and 25.7% from 2006 to 2007. These increases are due to higher interest rates during fiscal year 2006 and higher interest rates and higher balances during fiscal year 2007.

	June 30,		
	2007	**2006**	**2005**
	(Dollars in thousands)		
Net investment income per operating statement	$ 13,259	$ 4,103	$ 11,693
Adjustments for unrealized loss (gain) on fair value of securities	(311)	6,199	(3,786)
Interest earned on investments	$ 12,948	$ 10,302	$ 7,907
% Increase from prior year	25.7%	30.3%	

Other revenues

The increase of $67,000 (11.4%) in *Other revenues* from 2006 to 2007 was primarily due to an increase in rental income on the Fund's building.

The decrease of $643,000 (52.3%) in *Other revenues* from 2005 to 2006 was due to a $226,000 decrease in the gain on sale of mortgages under the Secondary Market Program resulting from a decrease in program activity. The Fund sold $26,784,000 of loans in the secondary market in fiscal year 2006 as compared to $40,358,000 sold in fiscal year 2005. Additionally, there was a reduction of $351,000 in rental income on multifamily properties owned and managed by the Fund due to the disposition of several of these properties during fiscal year 2006.

Interest and debt expense

The $2,687,000 (7.9%) increase in *Interest and debt expense* from 2006 to 2007 was primarily due to the increase in the balance of bonds outstanding in 2007 and higher interest rates on new debt issued.

The $245,000 (.7%) decrease in *Interest and debt expense* from 2005 to 2006 was primarily due to the early redemption of bonds in the amount of $99,150,000, scheduled debt service payments and lower interest rates on new debt issued.

Loan fees expense

The $284,000 (5.7%) increase in *Loan fees expense* from 2005 to 2006 and an additional increase of $704,000 (13.3%) from 2006 to 2007 was primarily due to an increase in loans originated from the prior year.

Program expenses, net

The $400,000 (10.3%) decrease in *Program expenses, net* from 2006 to 2007 was primarily due to a decrease in provision for loan loss expenses.

The $852,000 (18.0%) decrease in *Program expenses, net* from 2005 to 2006 was primarily due to a decrease in REO expenses of $491,000 and a decrease of $489,000 in improvements to the Fund's office building.

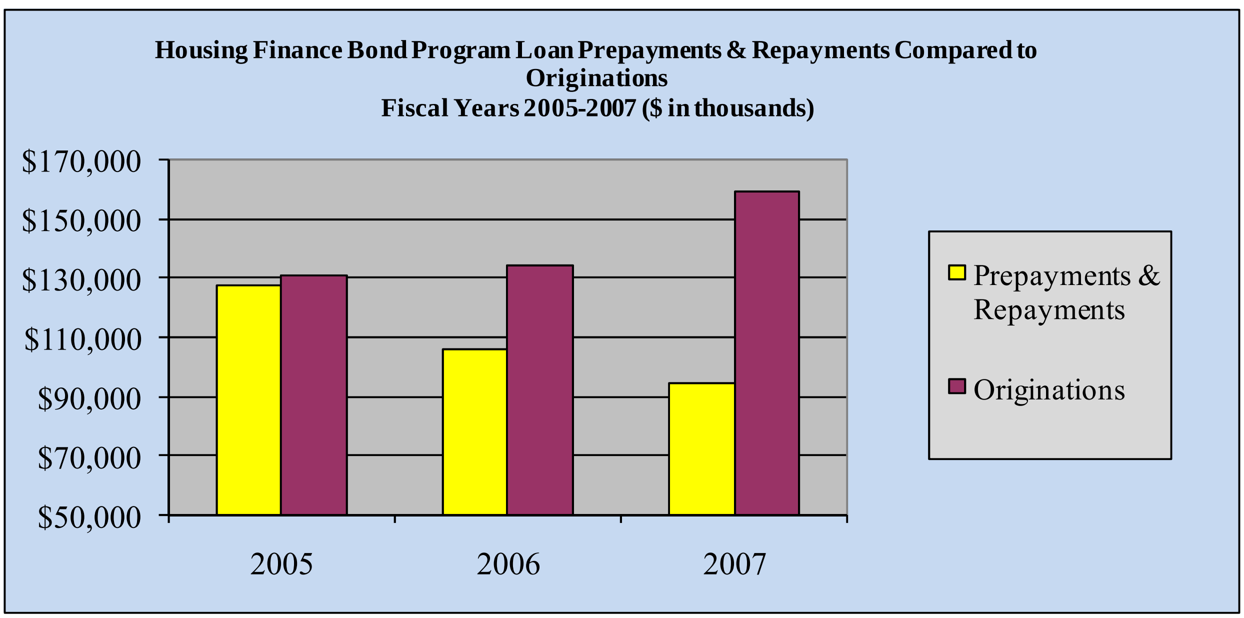
OVERVIEW OF THE FINANCIAL STATEMENTS

Mortgage Lending

The Fund's Housing Finance Bond Program is the core-housing program and the primary source of income for the Fund. Fluctuations in interest rates, whether up or down, can create significant challenges for the Fund in both the Housing Finance Bond Program and its overall operations.

Beginning in June 2004 the Federal Reserve increased the federal funds rate 17 times to 5.25% as of June 30, 2006 where it has remained through June 30, 2007. As interest rates have risen since the beginning of fiscal 2005, the Fund's mortgage loan rate has become more competitive compared to the conventional loan market and the number of borrowers refinancing their mortgages has decreased significantly as compared to fiscal years 2003 and 2004. As mortgage refinancing began to decrease, mortgage loan balances in the Housing Finance Bond Program remained essentially level from fiscal year 2004 to 2005. From fiscal year 2005 to fiscal year 2006 Housing Finance mortgage loan balances increased $24,617,000 and increased an additional $64,091,000 from fiscal year 2006 to fiscal year 2007. Mortgage loan balances and continued loan originations are key elements to future earnings potential.

The following chart illustrates the volume of loan prepayments and repayments compared to originations from fiscal year 2005 through fiscal year 2007 for the Housing Finance Bond Program.



Interest rates on new single family mortgage loans originated in fiscal years 2005 through 2007 have averaged approximately 5.51%. Due to lower interest rates on new single family loan originations and the prepayment of higher interest single family and multifamily loans, the average interest rate on loans outstanding in the Housing Finance Bond Program has declined as follows.

June 30, 2005	6.17%
June 30, 2006	6.06%
June 30, 2007	5.96%

Despite the decrease in the average mortgage interest rate, total *Interest on loans* for the fiscal year ended June 30, 2007 increased $2,423,000, or 4.9%, from the fiscal year ended June 30, 2006 due to an increase in mortgage loan balances. The fiscal year 2006 decrease in the average mortgage interest rate was also offset by an increase in loan balances.

Debt Management

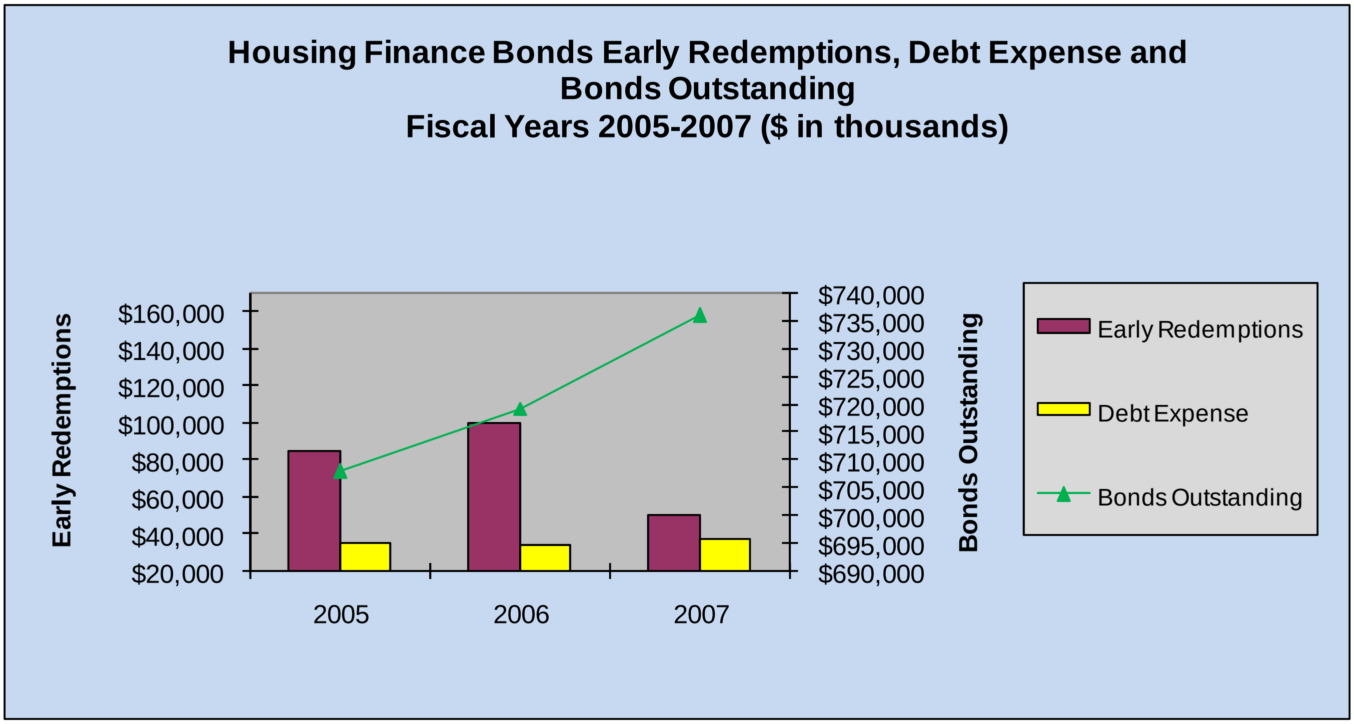
The Fund issues qualified mortgage revenue bonds to fund its single family Housing Finance Bond Program. When bonds are issued, the initial proceeds are invested in short-term investments until the funds are used for the purchase of mortgage loans. Because short-term investment rates may be lower than the long-term bond rates, this could create negative arbitrage. To reduce this negative arbitrage, the Fund delays the issuance of new bonds until absolutely necessary.

The Fund sometimes uses general operating funds as a warehouse line to purchase new loans in anticipation of bond sales. In addition to general operating funds, the Fund has a $15,000,000 line of credit with the Federal Home Loan Bank (the FHLB) that is also available to use as a warehouse line for the purchase of single family, multifamily, secondary market and economic development loans. This line of credit is secured by investments of the Bond Insurance Account and is a general obligation of the Fund. At June 30, 2007, no advances had been drawn on this line of credit, and accordingly, no balance is outstanding.

When bonds are issued from the bond volume allocation, known as “new money” bonds, certain repayments and prepayments of mortgage loans made from these proceeds may be “recycled” into additional mortgage loans for ten years. Since 1992, the Fund has used recycling to supplement its bond issues by using prepayments for additional mortgage loans instead of issuing debt. If the market interest rates on mortgages are lower than the corresponding bond rates, the Fund may redeem bonds in lieu of recycling. However, if mortgage rates are higher than the corresponding bond rates the Fund may redirect prepayments into additional mortgage loans in lieu of redeeming bonds. Moving forward into fiscal year 2008 the Fund expects to continue to recycle mortgage loan repayments from its bond issues when it is economically prudent to do so.

During fiscal years 2005, 2006 and 2007, the Fund redeemed $84,315,000, $99,150,000, and $30,340,000 in bonds, respectively. The decrease in early redemptions during 2007 is a factor of a decrease in the amount of funds received from the early prepayment of mortgages and the Fund’s ability to recycle these prepayments in lieu of redeeming bonds. Due to the decrease in bonds redeemed, the Fund’s bond balance has increased and as a result of this, debt interest expense has increased. Over these three fiscal years debt expense was $34,370,000 in 2005, $34,125,000 in 2006 and $36,812,000 in 2007.

The following chart illustrates early bond redemptions, debt expense and bonds outstanding.

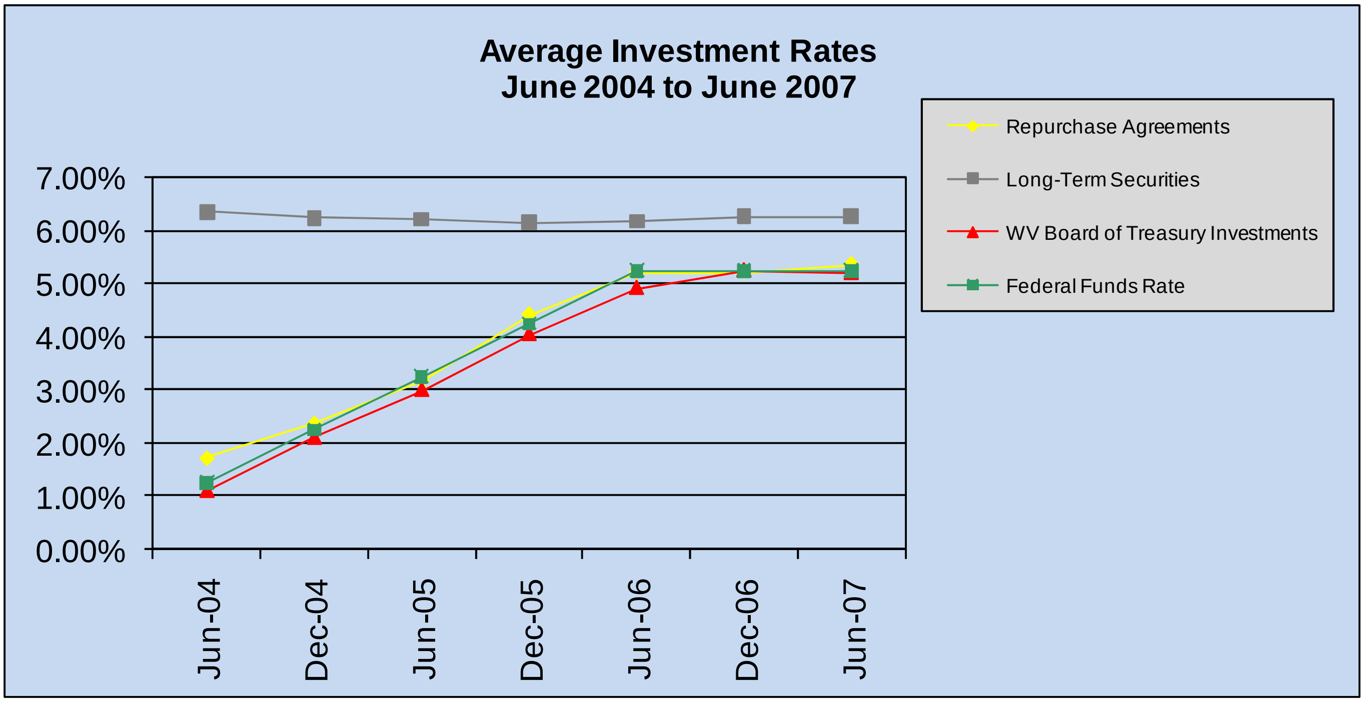


Investments

The Fund invests cash not required for immediate disbursement as permitted by the Act, the bond resolutions, and the Board approved Investment Policy. Funds related to Housing Finance Bond Program capital reserves and the Bond Insurance Account are primarily invested in long-term United States government and agency securities, which are expected to be held to maturity. Certain funds in the Bond Insurance Account and general operating funds are invested in mortgage loans held solely for investment purposes. The interest earnings on the above account types are less affected by the fluctuation in short-term interest rates.

Loan proceeds and revenues of the Housing Finance Bond Program, Other Loan Program, the Economic Development Financing Bonds and operating funds are primarily invested in collateralized repurchase agreements. The remaining funds are on deposit in a bank or with the West Virginia Board of Treasury Investments. Such funds are extremely sensitive to short-term interest rate fluctuations.

As shown in the following chart, the average investment rate for repurchase agreements and the West Virginia Board of Treasury Investments has been consistent with the Federal Funds rate. Since June 2004 the Federal Funds rate has increased to 5.25% as of June 30, 2006 and remains at 5.25% as of June 30, 2007. Average long-term investment rates remain relatively unchanged. However, as long-term investments mature or are redeemed, the Fund's long-term average rates are decreasing due to the current lower yield opportunities for the reinvestment of these funds.



Economic Development Program

The Fund developed an Economic Development Program to generate and promote job creation in the State. In November 2005, $15,000,000 Economic Development Financing Bonds were issued to fund a commitment of $12,500,000 for one economic development project. The Fund may issue additional economic development bonds to fund additional projects, but does not expect to issue, in total, more than $30,000,000. The Economic Development Financing Bonds are secured by the projects funded from the Economic Development Program and by the Fund's general obligation debt pledge.

In June 2003, the Fund entered into a revolving loan agreement of up to $2,500,000 with U.S. Windforce to develop wind-powered electric generation facilities in the State. This loan was paid in full on December 15, 2006. The Fund has also committed $6,000,000 to the West Virginia University ("WVU") Research Corporation to provide funds for the construction of biomedical research facilities, renovations to existing laboratories and the expansion of the WVU medical library. As of June 30, 2007, $3,897,000 has been advanced towards this commitment. The Fund does not expect to issue bonds in connection with this project.

The Fund has also provided a loan guarantee in the initial amount of $10,465,000 for Wheeling-Pittsburgh Steel Corporation. As a result of principal payments made by Wheeling-Pittsburgh Steel Corporation, the loan guarantee has been reduced to $6,272,000 as of June 30, 2007. The West Virginia Economic Development Authority is providing the Fund with a $1,775,000 guarantee toward the Fund's guarantee commitment. The Fund has set aside assets equal to its net guarantee commitment.

Other

The Fund services all of its outstanding mortgage loans and services loans on behalf of Fannie Mae and Freddie Mac. The Fund is the largest loan servicer in the State with serviced loans of $1.3 billion. Servicing fee income in the amount of $3,228,000 represents 5.30% of the Fund's operating revenues, net of pass through grant revenue, for the fiscal year ended June 30, 2007.

In March 2001, the Fund began operation of the WVHDF Company, LLC a wholly owned subsidiary created to provide competitively priced title insurance. Due to lower than projected volume of policies issued, the Fund elected to cease operations of its title insurance company in April 2007.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

The above financial highlights are designed to provide a general overview of the Fund's operations and insight into the following financial statements. Additional information may be requested by contacting the Deputy Director, West Virginia Housing Development Fund, at 814 Virginia St. East, Charleston, WV 25301, or may be found on our website at www.wvhdf.com.

WEST VIRGINIA HOUSING DEVELOPMENT FUND
STATEMENTS OF NET ASSETS
(Dollars in Thousands)

	June 30, 2007	June 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents-- *(Notes A and C)*	$ 36,432	$ 31,910
Accrued interest on loans	314	185
Accrued interest on investments	12	3
Mortgage loans held for sale-- *(Note A)*	1,189	665
Restricted cash and cash equivalents-- *(Notes A and C)*	51,391	48,466
Restricted accrued interest on loans	3,620	3,351
Restricted accrued interest on investments	954	1,318
Total current assets	93,912	85,898
Noncurrent assets:		
Mortgage loans, net of allowance for losses-- *(Note A)*	46,745	41,433
Other assets, net of allowance for losses-- *(Note A)*	817	852
Restricted cash and cash equivalents-- *(Notes A and C)*	51,287	61,084
Restricted investments-- *(Notes A and C)*	88,964	120,437
Restricted mortgage loans, net of allowance for losses-- *(Note A)*	910,177	836,770
Restricted other assets, net of allowance for losses-- *(Note A)*	3,548	3,810
Total noncurrent assets	1,101,538	1,064,386
Total assets	1,195,450	1,150,284
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other liabilities-- *(Note A)*	21,924	20,181
Accrued interest payable	6,580	6,050
Bonds payable-- *(Note D)*	24,925	58,795
Total current liabilities	53,429	85,026
Noncurrent liabilities:		
Federal program advances-- *(Note A)*	63,486	56,885
Bonds payable-- *(Note D)*	725,914	675,395
Total noncurrent liabilities	789,400	732,280
Total liabilites	842,829	817,306
Net assets:		
Restricted	270,616	259,514
Unrestricted	82,005	73,464
TOTAL NET ASSETS	$ 352,621	$ 332,978

The accompanying notes to financial statements are an integral part of these statements.

WEST VIRGINIA HOUSING DEVELOPMENT FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
(Dollars in Thousands)

	Year Ended June 30, 2007	Year Ended June 30, 2006
OPERATING REVENUES		
Interest on loans	$ 52,075	$ 49,652
Pass-through grant revenue-- *(Note A)*	59,845	55,352
Fee revenue-- *(Note A)*	8,201	6,904
Other-- *(Note A)*	654	587
	120,775	112,495
OPERATING EXPENSES		
Pass-through grant expense-- *(Note A)*	59,845	55,352
Loan fees expense-- *(Note A)*	5,984	5,280
Program expenses, net-- *(Note A)*	3,477	3,877
Administrative expenses, net-- *(Note A)*	8,273	8,576
	77,579	73,085
OPERATING INCOME	43,196	39,410
NON-OPERATING - FINANCING AND INVESTING REVENUES (EXPENSES)		
Net investment earnings	13,259	4,103
Interest and debt expense	(36,812)	(34,125)
	(23,553)	(30,022)
CHANGES IN NET ASSETS	19,643	9,388
NET ASSETS AT BEGINNING OF YEAR	332,978	323,590
NET ASSETS AT END OF YEAR	$ 352,621	$ 332,978

The accompanying notes to financial statements are an integral part of these statements.

WEST VIRGINIA HOUSING DEVELOPMENT FUND
STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from lending activities	$ 162,537	$ 173,699
Receipts from other operating activities	8,774	7,396
Receipts from escrows held on behalf of others	1,924	809
Receipts for federal lending activities	12,122	8,021
Receipts for federal activities	45,951	46,233
Disbursements for federal activities	(45,639)	(45,269)
Purchase of mortgage loans	(193,918)	(167,381)
Purchase of mortgage loans held for sale	(24,290)	(30,245)
Sales of mortgage loans	23,766	26,784
Payments to employees for salaries and benefits	(6,314)	(6,180)
Payments to vendors	(12,837)	(10,980)
Net cash (used in) provided by operating activities	(27,924)	2,887
CASH FLOWS USED IN NONCAPITAL FINANCING ACTIVITIES		
Net proceeds from sale of bonds	97,289	145,000
Retirement of bonds	(80,520)	(118,710)
Interest paid	(36,402)	(33,896)
Net cash used in noncapital financing activities	(19,633)	(7,606)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	34,261	6,367
Purchase of investments	(2,408)	(35,398)
Net investment earnings	13,354	9,916
Net cash provided by (used in) investing activities	45,207	(19,115)
Net decrease in cash and cash equivalents	(2,350)	(23,834)
Cash and cash equivalents at beginning of year	141,460	165,294
Cash and cash equivalents at end of year	$ 139,110	$ 141,460
Cash and cash equivalents consist of:		
Cash and cash equivalents	$ 36,432	$ 31,910
Restricted cash and cash equivalents - current	51,391	48,466
Restricted cash and cash equivalents - noncurrent	51,287	61,084
	$ 139,110	$ 141,460

The accompanying notes to financial statements are an integral part of these statements.

WEST VIRGINIA HOUSING DEVELOPMENT FUND
STATEMENTS OF CASH FLOWS (CONTINUED)
(Dollars in Thousands)

	Year Ended June 30, 2007	Year Ended June 30, 2006
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 43,196	$ 39,410
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for loan losses	130	1,435
Change in assets and liabilities:		
Accrued interest on loans	(129)	(32)
Mortgage loans held for sale	(524)	257
Other assets	(249)	2,855
Restricted accrued interest on loans	(269)	(17)
Restricted other assets	54	1,330
Mortgage loans, net	(4,908)	(4,879)
Restricted mortgage loans, net	(73,449)	(43,760)
Accounts payable	1,623	1,316
Federal program advances	6,601	4,972
Net cash (used in) provided by operating activities	$ (27,924)	$ 2,887

	2007	2006
Noncash investing and financing activities:		
Increase (Decrease) in fair value of investments	$ 311	$ (6,199)
Net amortization of premium/discount on investments	(60)	(67)

The accompanying notes to financial statements are an integral part of these statements.

NOTE A – AGENCY DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

The West Virginia Housing Development Fund (the Fund), a component unit of the State of West Virginia (the State), is a governmental instrumentality of the State and a public body corporate, created under the provisions of Article 18, Chapter 31 of the Code of West Virginia, 1931, as amended, and known as the West Virginia Housing Development Fund Act (the Act). Under the Act, the Fund's corporate purposes primarily relate to providing various housing programs. The Fund can also finance non-residential projects as defined in the Act.

The Fund is governed by a Board of Directors consisting of the Governor, Attorney General, Commissioner of Agriculture, and Treasurer of the State, all of whom serve ex-officio as public directors, and seven members, chosen by the Governor with the advice and consent of the State Senate, as private directors from the general public residing in the State. The Act, as amended in January 2005, designates the Governor or his or her designee as the Chair of the Board of Directors. Furthermore, this amendment provides that the Governor shall appoint the executive director, with the advice and consent of the State Senate, and that the executive director will serve at the Governor's will and pleasure.

The Fund is included as a discretely presented component unit of the primary government in the State's Comprehensive Annual Financial Report. In defining the Fund for financial reporting purposes, management considered all potential component units. Based on the criteria of accounting principles generally accepted in the United States, the Fund has no component units.

The various programs of the Fund consist of the General Account, Housing Finance Bond Program, Other Loan Programs, Land Development Program, Bond Insurance Account, and Federal Programs.

The General Account includes the activities of the Low-Income Assisted Mortgage Program, Refinancing Program, Special Needs Program, a program that provides matching funds for federal flood mitigation programs, results of the Fund's loan servicing operations, administrative expenses of the Fund's operations, and the operations of the Fund's building. In April 2007, the Fund transferred operations of the Low-Income Assisted Mortgage Program and the Special Needs Program to Other Loan Programs. The obligation to provide matching funds for federal flood mitigation has expired.

The General Account also includes the WVHDF Company, LLC, a wholly owned subsidiary of the Fund, formed to provide competitively priced title insurance. Due to lower than projected revenues, the Fund elected to cease operations of its title insurance company in April 2007. The effect of discontinuing the title insurance company is not material for the year ended June 30, 2007 or future reporting periods.

The Housing Finance Bond Program includes the activities of the single family and multifamily bond program the purpose of which is to provide affordable housing throughout the State. Assets and revenues of the Housing Finance Bond Program are restricted subject to the provisions of the bond resolution and are available for other purposes only to the extent they are not required to meet specified reserve and funding provisions of the resolution.

Other Loan Programs include the Homeownership Assistance Program, Secondary Market Program, Leveraged Loan Program, Economic Development Program, Mini-Mod Renovation Program, Constructing Affordable Sensible Homes Program, Flood Program, Demolition Program, Home Emergency Loan Program, and since April 2007 the operations of the Low-Income Assisted Mortgage Program and the Special Needs Program, all of which have been financed from the general reserves of the Fund. Other Loan Programs also include activities of the Economic Development Financing Bond Program.

The Land Development Program was established by the Act in 1973 with a $2,000,000 appropriation from the State Legislature from which the Fund can make below-market interest rate loans to developers to acquire and improve land for residential housing and non-residential construction. The Land Development Program is restricted by State statute.

The Bond Insurance Account was created by the Act as a special trust fund within the State Treasury designated as the "Mortgage Finance Bond Insurance Fund", and was established to provide for the payment of principal and interest in the event of default by the Fund on "Mortgage Finance Bonds," as defined in the Act. The Bond Insurance Account is restricted by State statute and is under the supervision of the West Virginia Municipal Bond Commission (the "Bond Commission"). The Bond Insurance Account is included in the Fund's financial statements but is kept separate and apart from all other accounts of the Fund, the Bond Commission, and the State. The only Mortgage Finance Bonds currently outstanding are the Housing Finance Bonds.

Federal Programs include the United States Department of Housing and Urban Development's (HUD) HOME Investment Program (HOME), and Section 8 Housing Assistance Payments Programs (HAPs Program) for which the Fund acts as program administrator. These programs are funded solely through federal monies and are restricted by Federal regulations.

Accounting methods: The accounting policies of the Fund conform to generally accepted accounting principles for state housing finance agency enterprise funds. The various programs were established in accordance with the Act, the bond resolutions, or at management's discretion. The financial statements are prepared following the flow of economic resources measurement focus on the accrual basis of accounting, which requires recognition of revenue when earned and expenses when incurred.

The Fund follows Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, and accordingly, does not adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB statements or interpretations.

Cash and cash equivalents: The Fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. This includes cash, certificates of deposit, collateralized repurchase agreements, and deposits with the West Virginia Board of Treasury Investments (WVBOTI). Under arrangements relating to collateralized repurchase agreements, third parties hold the underlying securities and monitor the market values of such securities so that the market value of the collateral pledged is maintained at a minimum of 102% of the amount of the repurchase agreements.

Mortgage loans held for sale: In its Secondary Market Program, the Fund purchases and sells fixed-rate and adjustable-rate mortgage loans, primarily to government agencies, on a servicing retained basis. Mortgage loans held for sale, including commitments to purchase and sell loans, are carried at the lower of aggregate cost or market. The sale price is determined at the date of commitment and the commitment period generally ranges from 30 to 90 days. At June 30, 2007, the Fund had commitments to originate loans of $6,596,000, net of estimated fallout, and commitments to sell loans of $7,565,000.

Restricted cash and cash equivalents represents monies the Fund holds on behalf of others, restricted by the Act or by the bond resolutions. Included in this line item are tax and insurance escrows held on behalf of the Fund's various mortgagors and payments collected on mortgages for which the Fund acts as servicer only. The Fund is obligated to expend these monies on escrowed items or remit them to the appropriate investors in the case of mortgage loans serviced for the benefit of others. Also included in *Restricted cash and cash equivalents* are federal housing program funds for which the Fund acts as grantee or agent. The total funds held on behalf of others was $ 16,707,000 at June 30, 2007 and $16,024,000 at June 30, 2006. *Restricted cash and cash equivalents* to be used for the acquisition of noncurrent assets, such as mortgage loans or investments, are classified as *Noncurrent assets*.

Mortgage loans, net of allowances for losses: These loans consist primarily of unrestricted mortgage loans made under the General Account and Other Loan Programs. The Fund provides for possible losses on loans based on management's review of potential problem loans. The allowance for loan losses is shown below.

	June 30, 2007			June 30, 2006		
	Loan Balance	Allowance	Net	Loan Balance	Allowance	Net
	(Dollars in thousands)			(Dollars in thousands)		
Unrestricted Mortgage						
Loans Receivable:						
General Account	$ 6,081	$ (1,257)	$ 4,824	$ 13,576	$ (5,902)	$ 7,674
Other Loan Programs	52,125	(10,204)	41,921	39,310	(5,551)	33,759
Total	$ 58,206	$ (11,461)	$ 46,745	$ 52,886	$ (11,453)	$ 41,433

Other assets include accounts receivables and foreclosed properties or properties owned net of an allowance for estimated probable declines in net realizable value. Also included in *Other assets* is land and an office building owned by the Fund stated at its original cost of $1,100,000, net of accumulated depreciation of $880,000. As of December 31, 2003, the building was fully depreciated. Capital assets are not separately presented in the financial statements due to immateriality.

	June 30, 2007			June 30, 2006		
	Balance	Allowance	Net	Balance	Allowance	Net
	(Dollars in thousands)			(Dollars in thousands)		
Other Assets						
Accounts receivable	$ 398	$ (13)	$ 385	$ 424	$ (36)	$ 388
Land and office building	300	(8)	292	331	-	331
Foreclosed property	366	(226)	140	368	(235)	133
Total	$ 1,064	$ (247)	$ 817	$ 1,123	$ (271)	$ 852

Office furniture, equipment, and improvements are charged to operations when purchased; accordingly, no depreciation or amortization for these items is included in the financial statements. If such assets were capitalized and depreciated over their estimated useful lives, there would be no material effect on the accompanying financial statements.

Restricted investments: The Fund established guidelines for the investment of its funds to meet the requirements of the bond resolutions and the Act. Investments consist primarily of collateralized repurchase/investment agreements and United States government and agency obligations with maturities greater than 90 days.

Investment securities are recorded at fair value, based on quoted market prices, and a portion of the unrealized gains or losses is reported in the Statements of Revenues, Expenses, and Changes in Net Assets as part of *Net investment earnings* as more fully explained in *Note C – Cash and Investments*.

Restricted mortgage loans, net of allowance for losses includes loans originated under the General Account, the Housing Finance Bond Program, Other Loan Programs, Land Development Program, and Federal Programs as well as loans held in the Bond Insurance Account. The allowance for loan losses in these programs is shown below.

	June 30, 2007			June 30, 2006		
	Balance	Allowance	Net	Balance	Allowance	Net
	(Dollars in thousands)			(Dollars in thousands)		
Restricted Mortgage Loans Receivable:						
General Account	$ 1,725	$ (1,679)	$ 46	$ 1,888	$ (1,655)	$ 233
Other Loan Programs	12,343	(3,086)	9,257	10,549	(2,637)	7,912
Land Development	5,336	(509)	4,827	3,060	(617)	2,443
Bond Insurance Account	15,851	(390)	15,461	16,945	(165)	16,780
Housing Finance Bond Program	825,063	(6,125)	818,938	762,675	(7,828)	754,847
Federal Programs	83,356	(21,708)	61,648	73,701	(19,146)	54,555
Total	$ 943,674	$ (33,497)	$ 910,177	$ 868,818	$ (32,048)	$ 836,770

Federal Programs include HOME, which is designed to assist very low-income borrowers and to provide capacity building funds for nonprofit housing organizations. The funds provided to these nonprofits will only be repaid if the nonprofit fails to provide the services required as a condition of receiving HOME funds. Therefore, these HOME loans are recorded as restricted mortgage loans with a corresponding 100% loss allowance in the Statements of Net Assets.

Most loans in the Housing Finance Bond Program are protected against loss by collateralization and various federal and private insurance programs. Repayment of certain multifamily rental project loans is dependent, in part, upon rental and interest subsidy programs of HUD.

Restricted other assets include certain foreclosed properties, properties developed for flood activities, other land for restricted housing purposes, and miscellaneous receivables, net of an allowance for estimated probable declines in the net realizable value. These assets are restricted subject to the provisions of the bond resolutions, the Act, or federal regulations.

	June 30, 2007			June 30, 2006		
	Balance	Allowance	Net	Balance	Allowance	Net
	(Dollars in thousands)			(Dollars in thousands)		
Restricted other assets						
Accounts receivable	$ 228	$ (166)	$ 62	$ 244	$ (186)	$ 58
Land	3,576	(2,593)	983	5,293	(3,379)	1,914
Foreclosed property	3,849	(1,346)	2,503	2,913	(1,075)	1,838
Total	$ 7,653	$ (4,105)	$ 3,548	$ 8,450	$ (4,640)	$ 3,810

Accounts payable and other liabilities includes amounts held on behalf of others as explained in *Note A - Restricted cash and cash equivalents*, amounts due to vendors, and rebateable investment earnings.

Federal program advances are federal housing program funds for which the Fund acts as grantee or agent to originate mortgages under the HOME program.

Restricted net assets: Net assets of the Housing Finance Bond Program and a portion of the net assets of Other Loan Programs relating to the Economic Development Financing Bonds are restricted to meet specified reserve and funding provisions in accordance with the Housing Finance Bond Resolution and the Economic Development Bond Resolution, respectively. Net assets of the Land Development Program and Bond Insurance Account are restricted in accordance with the Act. Federal Programs are restricted due to requirements of HUD as the grantor agency. When both restricted and unrestricted resources are available for use, it is generally the Fund's policy to use restricted resources first, and then unrestricted resources as they are needed.

Operating revenues and expenses: The Fund classifies operating revenues and expenses based on the services provided by the Fund and its ongoing operations. This includes such activities as mortgage lending, administration of federal financial assistance programs, property management and development, and other related program activities. *Net investment earnings* and interest on debt are reported as *non-operating revenues and expenses*.

Pass-through grant revenue and pass-through grant expense: The Fund receives grants and other financial assistance from HOME and the HAPs Programs to transfer or spend on behalf of various secondary recipients. These amounts are considered pass-through grants, and are reported in the financial statements as revenue and expense when funds are disbursed to the subrecipient.

Fee revenue consists primarily of loan servicing fees on mortgage loans serviced by the Fund, administration fees earned from the HAPs Program, financing fees, bond insurance fees, secondary market fees, prepayment penalties on multifamily loans and deferred document penalty fees.

The Fund services all loans in its portfolio as well as loans on behalf of others totaling approximately $1,297,928,000 and $1,232,945,000 at June 30, 2007 and 2006, respectively. Of this total, the portfolio serviced by the Fund on behalf of others approximated $285,777,000 and $300,654,000 at June 30, 2007 and 2006, respectively.

Other revenues consist primarily of rental income, gains on sales of foreclosed properties acquired through the Fund's mortgage lending activities, and other miscellaneous revenue items.

Loan fees expense includes fees paid to lenders for the origination of mortgage loans. In addition, loan fees expense includes the cost of acquiring the servicing rights to mortgage loans owned by the Fund and loans owned by others, primarily Fannie Mae. Since such costs are expensed as incurred, no purchased mortgage servicing right is capitalized. The impact of not capitalizing the present value of net future servicing revenues, less amortization, over the estimated lives of the underlying mortgage loans, is not material to the accompanying financial statements.

Program expenses primarily consist of disbursements made under the Fund's various programs, provisions for mortgage loan losses and costs of bond issuance. The Fund expenses bond issuance costs in the period the related bonds are issued. Expensing debt issuance costs in the period of borrowing does not materially affect the accompanying financial statements. *Program expenses* also include daily operating expenses of the office building owned by the Fund and certain foreclosed multifamily properties the Fund owns and manages.

Administrative expenses, net include salary, benefits, and other operating expenses related to the daily operations of the Fund. When an expense is incurred, the expense is charged to the program or account for which it is directly applicable, whether restricted or unrestricted. Indirect expenses are allocated to programs and accounts based on a percentage of the program's or account's direct salary cost.

Reclassifications: Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 presentation. Such reclassifications had no effect on *Total Net Assets.*

NOTE B – ASSETS FOR RESERVED AND OTHER PURPOSES

Assets and revenues of the Housing Finance Bond Program and Economic Development Financing Bond Program are subject to the provisions of the bond resolution and are available for other purposes only to the extent they are not required to meet specified reserve and funding provisions of the resolution. The Fund, to the extent such monies become available under the terms of the resolution, has pledged to maintain the net assets of its Housing Finance Bond Program at a level to preserve the Fund's bond ratings. In the event that the Fund fails to comply with the terms of the Housing Finance Resolution or the General Economic Development Bond Resolution, the holders of such obligations would have recourse to the unrestricted assets of the Fund.

Assets of the General Account and Other Loan Programs are principally unrestricted and may be transferred to other programs subject to the approval of the Fund's management or Board of Directors. The Fund has committed $609,000 from the General Account and $8,126,000 from Other Loan Programs for various loans and economic development projects at June 30, 2007. These amounts are included in *Unrestricted net assets*. Additionally, the Fund has provided a $4,497,000 net loan guarantee under its Economic Development Program as more fully explained in *Note G – Contingent Liabilities and Risk Management*. The Fund has set aside assets equal to the net loan guarantee for this commitment. The Fund is actively accepting applications from prospective recipients to originate loans from amounts allocated by the Board of Directors from the General Account and Other Loan Programs.

The Board of Directors has also allocated $1,000,000 of the *Unrestricted net assets* for the "Directors' and Officers' Insurance Account" for the purpose of providing indemnification for the directors and officers of the Fund. The fiscal year 2008 administrative budget of $9,986,000 will be provided from the *Unrestricted net assets* and from future revenues of the Fund.

NOTE C – CASH AND INVESTMENTS

The Fund actively invests cash in conformity with the Act, the Housing Finance Bond Program and Economic Development Financing Bond Program resolutions, and the Board approved Investment Policy. Permitted investments include a wide variety of securities and obligations such as certain corporate deposits, investment agreements or repurchase agreements with primary government dealers, direct obligations or obligations guaranteed by the State, United States government securities, or federal agency securities. Currently, the Fund's investments consist primarily of United States government or agency securities or repurchase agreements collateralized with United States government or agency securities. The Investment Policy also permits the Fund to invest a maximum of $13,000,000 with the WVBOTI. The reported value of the deposits with the WVBOTI is the same as the fair value of the pool shares. The WVBOTI operates in accordance with applicable State laws and regulations. The following is a detail of the Fund's investments by type:

Investment Type	Weighted Avg Maturity at June 30, 2007	June 30, 2007 Amortized Cost	June 30, 2007 Estimated Fair Value	June 30, 2006 Amortized Cost	June 30, 2006 Estimated Fair Value
		(Dollars in thousands)		(Dollars in thousands)	
Repurchase Agreements	24 days	$ 111,305	$ 111,305	$ 146,165	$ 146,165
FannieMae MBS Pools	23.50 years	8,845	8,601	10,147	9,832
Federal Agency Securities	10.47 years	63,310	68,375	63,813	68,440
U.S. government	11.14 years	10,661	11,987	10,652	12,165
Mortgages held for investment	22.30 years	23,189	23,189	25,333	25,333
Demand deposits	1 day	15,230	15,230	12,755	12,755
WVBOTI Funds	1 day	12,576	12,576	12,540	12,540
Total Investments, including cash equivalents		$ 245,116	$ 251,263	$ 281,405	$ 287,230

Interest Rate Risk –The Investment Policy limits the weighted average maturity of various fund types as shown in the following chart. The Act does not provide for investment maturity limits. Reserve funds are the capital reserve investments required for the Housing Finance Bonds and the Economic Development Financing Bonds which are invested in long-term U.S. Government and government agency obligations and repurchase agreements. The Bond Insurance Account, which provides additional reserves for the payment of the Housing Finance Bonds, is invested in U.S. Government and government agency obligations as well as mortgage loans for investment purposes. Other funds consist of bond revenues to be used for debt service on the outstanding bonds, bond proceeds for the purchase of mortgage revenue bond loans or economic development projects, Other Loan Program funds and general operating funds. Other funds are primarily invested in short-term repurchase agreements to meet program-funding needs and to provide for daily operational costs of the Fund. Funds held for others consist of single family and multifamily escrow funds as well as amounts to be remitted to others. The Fund has both the intent and the ability to hold long term securities until final maturity and is therefore limited in its exposure to interest rate risk on these long-term obligations.

	Permitted Maturity Limit	Average Maturity
Reserve Funds	30 Years	13.99 years
Bond Insurance Funds	10 Years	8.56 years
Other Funds	4 years	1.58 years
Funds Held for Others	1 year	1.00 day

Credit Risk - The Act limits investments in direct and general obligations of any other state to those rated in either of the two highest rating categories by a nationally recognized bond rating organization. The Act also limits the investment in corporate debt instruments to U.S. corporations with a minimum net worth and other requirements as well as a minimum credit rating of "AA". The Fund's Investment Policy additionally requires repurchase agreements to be invested with banks or primary dealers which are rated or provide the necessary collateral to maintain the Fund's bond, note and issuer ratings. Furthermore the Investment Policy limits collateral for repurchase agreements to direct federal and federally guaranteed obligations, and federal agency obligations. As of June 30, 2007 the Fund's investments in the WVBOTI and mortgages held for investment are not rated. In July 2007, Standard & Poors issued a AAA rating on the WVBOTI's investment pools. Repurchase agreements are collateralized by Fannie Mae, Ginnie Mae and Freddie Mac securities all of which are rated AAA. Federal agency securities consist of Fannie Mae, Federal Farm Credit Bank, Federal Home Loan Bank and Freddie Mac all of which are rated AAA. Fannie Mae MBS pools are also rated AAA.

Concentration of Credit Risk – The Investment Policy limits the percentage of the investment portfolio that may be invested in various types of issuers as follows. Underlying collateral for repurchase agreements is used in determining the percentage of the permitted investments. The Act does not limit the percentage of investments in any permitted investment type.

		June 30, 2007	
	Maximum of Portfolio	Invested Funds	% of Total Investment
		(Dollars in thousands)	
Direct Federal Obligations	100%	$ 10,661	4%
Federal Agency Obligations	90%	-	0%
Federally Guaranteed Obligations	100%	183,460	76%
Housing Bonds	5%	-	0%
Demand Deposits, CD's	30%	15,230	6%
West Virginia Obligations	15%	-	0%
Other State/Local Obligations	15%	-	0%
Corporate Obligations	15%	-	0%
Mortgages Held for Investment Purposes	30%	23,189	9%
Mutual Funds	10%	-	0%
Options	5%	-	0%
WVBOTI	$13,000	12,576	5%
Total Invested Funds		$ 245,116	100%

Custodial Credit Risk – Deposits - The Fund's cash, including escrow funds, had a carrying value of $15,230,000 and $12,755,000 as of June 30, 2007 and 2006, respectively. Bank balances approximated $14,101,000 and $13,959,000 as of June 30, 2007 and 2006, respectively, of which approximately $7,156,000 and $8,393,000 was covered by federal depository insurance as of June 30, 2007 and 2006, respectively, and $6,945,000 and $5,566,000 was either collateralized with securities pledged to the Fund and held by the trust department of the pledging financial institution or held and pledged to the Fund by the pledging financial institution's agent as of June 30, 2007 and 2006, respectively. Trust balances were $2,163,000 and $456,000 as of June 30, 2007 and 2006, respectively, and are not subject to custodial credit risk. The Act requires all deposits to be FDIC insured or fully collateralized by permitted investments. The Investment Policy further limits the securities permitted as collateral for amounts in excess of FDIC insurance to direct federal or federally guaranteed obligations, federal agency, State or other state and local obligations.

Custodial Credit Risk – Investments – The Investment Policy requires purchased securities be physically delivered to the Fund's custodian or trustee or, in the case of book-entry securities, registration books shall designate the custodian or trustee. The Investment Policy also requires collateral for repurchase agreements be delivered to a third party custodian or in the case of book-entry securities, be registered to the Fund. All U.S. government and agencies obligations owned by the Fund are registered in the Fund's name or the Fund's designated trustee. All repurchase agreements and investment contracts are tri-party agreements where third parties hold the underlying securities on behalf of the Fund. The Act does not address custodial credit risk for investments.

Mortgages held for investment are included in *Mortgage loans, net of allowances* and *Restricted mortgage loans, net of allowances* on the Statement of Net Assets. Investments are included at estimated fair value in the accompanying financial statements as follows:

	June 30, 2007	June 30, 2006
	(Dollars in thousands)	
Cash and cash equivalents	$ 36,432	$ 31,910
Current restricted cash and cash equivalents	51,391	48,466
Noncurrent restricted cash and cash equivalents	51,287	61,084
Restricted investments	88,964	120,437
Plus Mortgages held for investment purposes	23,189	25,333
	$ 251,263	$ 287,230

In accordance with GASB 31 at June 30, 2007, the Fund has an unrealized gain on investments of $6,147,000. This represents a $321,000 decrease from the June 30, 2006 unrealized gain on investments. A portion of this unrealized gain, $616,000 is recorded as a liability. This portion is recorded as a liability because, if this gain were realized, it would increase excess rebateable investment earnings pursuant to Section 103A of the Internal Revenue Code, as amended (the Code). To adjust the fair value of investments to reflect this unrealized gain at June 30, 2007 and to properly reflect the rebate liability, a $311,000 increase was recorded in *Net investment earnings* in the Statements of Revenues, Expenses, and Changes in Net Assets for year ended June 30, 2007.

NOTE D – BONDS PAYABLE

The Act authorizes the Fund to issue bonds and notes for its various programs in an aggregate principal amount not to exceed $1,250,000,000 outstanding at any one time, exclusive of refunded obligations. Bonds and notes issued by the Fund are considered obligations of the Fund and are not deemed to constitute a debt or liability of the State.

The proceeds from the Fund's Housing Finance Bond Program are used to finance mortgage loans to eligible State borrowers and to establish certain reserves as required by the resolution. The mortgage loans are secured by deeds of trust and substantially all loans are subject to coverage under federal or private mortgage insurance or guarantee programs. All bonds are secured by a pledge of all mortgage loan repayments, all proceeds of federal or private mortgage insurance, interest received on any monies or securities held pursuant to the resolution, and the rights and interest of the Fund in and to the mortgage loans.

To reduce its debt expense, the Fund redeems Housing Finance Program Bonds from prepayments of the mortgages in its portfolio. The Code permits the Fund to issue new bonds or notes to replace some of those bonds redeemed early from prepayments. This enables the Fund to issue debt in excess of the bond volume cap allocated to it by the State if required.

On November 1, 2005, the Fund issued $15,000,000 in bonds under the General Economic Development Bond Resolution to fund a commitment of $12,500,000 for one economic development project. The remaining bond proceeds funded the capital reserve required for this issue. These bonds are secured by the Fund's general obligation debt pledge and by a pledge of the revenues derived from economic development investments pursuant to the General Economic Development Bond Resolution and moneys and securities held in any fund or account established thereunder.

The following chart summarizes bond activity from June 30, 2006 to June 30, 2007:

	Outstanding June 30, 2006	Debt Issued	Debt Paid	Early Redemptions	Amortization of Premium	Reclassification from noncurrent to current	Outstanding June 30, 2007
				(Dollars in thousands)			
Bonds payable - current	$ 58,795	$ -	$ (50,180)	$ (8,615)	$ -	$ 24,925	$ 24,925
Bonds payable - noncurrent	675,395	97,289	-	(21,725)	(120)	(24,925)	725,914
Total	$ 734,190	$ 97,289	$ (50,180)	$ (30,340)	$ (120)	$ -	$ 750,839

The following chart summarizes bond activity from June 30, 2005 to June 30, 2006:

	Outstanding June 30, 2005	Debt Issued	Debt Paid	Early Redemptions	Amortization of Premium	Reclassification from noncurrent to current	Outstanding June 30, 2006
				(Dollars in thousands)			
Bonds payable - current	$ 73,185	$ -	$ (19,560)	$ (53,625)	$ -	$ 58,795	$ 58,795
Bonds payable - noncurrent	634,715	145,000	-	(45,525)	-	(58,795)	675,395
Total	$ 707,900	$ 145,000	$ (19,560)	$ (99,150)	$ -	$ -	$ 734,190

The following is a summary of bonds outstanding under the Economic Development Financing Bond Program and Housing Finance Bond Program:

	Original Amount Authorized	Outstanding at June 30, 2007	Outstanding at June 30, 2006
	(Dollars in thousands)		
ECONOMIC DEVELOPMENT FINANCING BOND PROGRAM			
2005 Series A (5.45%; 5.57%-variable), due 2007-2012 (1)	$ 15,000	$ 15,000	$ 15,000
HOUSING FINANCE BOND PROGRAM			
1996 Series A & B	50,000	-	4,190
1997 Series C (5.75%), due 2017-2026	46,040	36,770	36,770
1998 Series A & B (4.70% to 5.30%), due 2007-2023	86,855	55,460	62,710
1998 Series E (6.10%), due 2007-2008	76,150	14,525	23,510
1998 Series F (5.70%), due 2007-2013	2,235	1,215	1,365
1999 Series A & B (4.375% to 5.25%), due 2007-2021	50,000	24,600	28,610
2000 Series C (6.00%), due 2010-2034	35,000	34,760	34,760
2000 Series D (6.55%), due 2007-2010	7,500	3,330	4,085
2001 Series A & B (4.25% to 5.25%), due 2007-2019	65,000	24,620	26,830
2001 Series C (5.20%), due 2012-2032	50,000	50,000	50,000
2001 Series D (5.20% to 5.35%), due 2017-2031	79,665	58,025	65,525
2002 Series B & C (5.30% to 5.35%), due 2019-2025	40,035	21,965	24,615
2003 Series A (4.75%), due 2013-2039	25,000	25,000	25,000
2003 Series B (4.90%), due 2014-2039	17,500	17,500	17,500
2003 Series C (4.00%), due 2007-2013	16,800	9,360	13,685
2004 Series A (4.40%), due 2007-2034	30,000	27,325	28,620
2004 Series B (4.90%), due 2007-2034	20,000	18,510	19,355
2004 Series C (4.35%), due 2007-2034	35,000	33,285	34,530
2005 Series A (4.375%), due 2007-2035	30,000	28,760	29,700
2005 Series B (4.40%), due 2007-2034	60,110	54,680	57,830
2005 Series C (4.50%), due 2007-2035	30,000	29,495	30,000
2006 Series A (4.70%), due 2007-2040	60,000	29,810	60,000
2006 Series C (5.00%), due 2007-2040	40,000	39,700	40,000
2006 Series D (3.75%-4.75%,PAC-5.750%), due 2007-2037	35,000	34,975	-
2007 Series A (3.70%-4.50%,PAC-5.50%), due 2007-2037	60,000	60,000	-
Total Bonds Payable, without unamortized premium		748,670	734,190
Unamortized bond premium		2,169	-
Total Bonds Payable, with unamortized premium		$ 750,839	$ 734,190

(1) The Economic Development 2005 Series A Bonds include $3,500,000 variable rate debt adjusted monthly to an interest rate equal to 25 basis points over the 1-month LIBOR rate, not to exceed 9%.

Total bonds payable does not include $11,655,000 in special obligation bonds issued by the Fund as a conduit issuer. These special obligation bonds are secured by loan payments and deeds of trust on three projects. None of the Fund's assets or revenues are pledged to the payment of these special obligations. Furthermore, these special obligations are not secured by the Fund's general obligation debt pledge or its moral obligation and are not included in the Fund's financial statements.

On June 14, 2007, the Fund committed to sell the Housing Finance 2007 Series B Bonds in the principal amount of $40,000,000. The Housing Finance 2007 Series B Bonds were issued on July 12, 2007.

Interest paid on bonds was $36,402,000 and $33,896,000 for the fiscal years ended June 30, 2007, and 2006, respectively.

The following is a summary of scheduled annual principal and interest for the five years commencing July 1, 2007 and thereafter to maturity.

Bonds Maturing During Year Ending June 30:	Principal	Interest	Total
	(Dollars in thousands)		
2008	$ 24,925	$ 37,515	$ 62,440
2009	23,875	35,825	59,700
2010	21,430	34,723	56,153
2011	22,265	33,688	55,953
2012	25,765	32,576	58,341
2013-2017	116,895	145,119	262,014
2018-2022	163,435	110,892	274,327
2023-2027	148,850	69,609	218,459
2028-2032	121,405	35,505	156,910
2033-2037	69,475	10,473	79,948
2038-2040	10,350	915	11,265
	$ 748,670	$ 546,840	$ 1,295,510

Most Housing Finance Bonds issued by the Fund are subject to redemption at the option of the Fund prior to maturity at dates and premiums as set forth in the Housing Finance Bond resolution. The Fund redeems bonds prior to their stated maturity dates primarily due to excess program revenues, the prepayments of mortgage loans pledged for the repayment of the bonds, excess amounts in the capital reserve funds, and/or from proceeds of refunding bonds. During the fiscal years ended June 30, 2007 and 2006, the Fund redeemed or refunded $30,340,000 and $99,150,000 of Housing Finance Bonds, respectively, at redemption prices that approximated their carrying value. The impact of these early redemptions on the financial statements was not material.

In accordance with Section 103A of the Code, the Fund has established allowances for excess rebateable investment earnings. The excess rebateable investment earnings arise due to actual investment yields earned by the Fund being greater than yields permitted to be retained by the Fund under the Code. The Code requires such excess investment earnings to be remitted to the Internal Revenue Service. The Housing Finance Program established liabilities for excess rebateable investment earnings in the amount of $203,000 and $93,000 at June 30, 2007 and 2006, respectively. These amounts are included in *Accounts payable and other liabilities* and represent actual earnings in excess of those permitted by the Code. These amounts are in addition to the $616,000 and $607,000 established as a liability at June 30, 2007 and 2006, respectively, for the excess of the fair value of investments over amortized costs as explained in *Note C – Cash and Investments*. Future excess investment earnings may require the establishment of additional liabilities for these and other bond issues.

The Fund has a $15,000,000 line of credit with the Federal Home Loan Bank that is available to use as a warehouse line for the purchase of single family, multifamily, secondary market loans and economic development projects. This line of credit is secured by investments of the Bond Insurance Account and is a general obligation of the Fund. At June 30, 2007, no advances had been drawn on this line of credit, and accordingly, no balance is outstanding.

NOTE E - RETIREMENT PLAN

All full-time Fund employees are eligible to participate in the State's Public Employees' Retirement System (PERS), a cost-sharing multiple-employer public employee retirement system. Employees who retire at or after age 60 with five or more years of credited service, or at least age 55 with age and service equal to 80, are entitled to a retirement benefit established by State statute, payable monthly for life, in the form of a straight-life annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement.

Final average salary is the average of the highest annual compensation received by an employee during any period of three consecutive years of credited service included within ten years of credited service immediately preceding the termination date of employment with a participating public employer or, if the employee has less than three years of credited service, the average of the annual rate of compensation received by the employee during the total years of credited service. The PERS also provides deferred retirement, early retirement, death, and disability benefits. The required contributor's percentage of 10.5% is determined by actuarial advisement within ranges set by statute. As permitted by legislation, the Fund has elected to pay 100% of all costs relating to the Plan, including the employee's 4.5% contribution. Such costs approximated $747,000, $731,000, and $733,000 for the fiscal years ended June 30, 2007, 2006, and 2005, respectively. The PERS issues an annual report, which can be obtained by contacting the PERS.

NOTE F – COMPENSATED ABSENCES AND OTHER POSTEMPLOYMENT BENEFITS

Employees accumulate annual leave balances to maximum amounts ranging from 210 to 420 hours. Most employees receive a 100% termination payment upon separation based upon their final rate of pay. The liability for annual leave is valued at 100% of the balance plus the Fund's share of Social Security and Medicare contributions. The liability for annual leave at June 30, 2007 and June 30, 2006 is $529,000 and $534,000, respectively. In lieu of cash payment at retirement, an employee can elect to use accumulated annual leave toward their postemployment health care insurance premium as further explained below.

The Fund provides certain health care insurance benefits for retired employees. Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the Fund. The Fund will pay monthly health insurance premiums of these retirees based on unused sick leave and/or annual leave at the time of retirement until the unused leave is fully utilized or until the retiree reaches the eligible age for Medicare. A retiree may convert two unused leave days into one month's insurance premium for single coverage or three unused leave days into one month's premium for family coverage. Accordingly, the maximum period for which a retiree may be entitled to such benefits would be ten years. The Fund's policy is to fund the cost of medical benefits in amounts determined at the discretion of management. The Fund has recorded a liability for expected conversion of sick leave to health care premiums and accrued vacation for all employees in accordance with GASB Statement No. 16, *Accounting for Compensated Absences.* The liability for expected conversion of sick leave to health care premiums at June 30, 2007 and June 30, 2006 is $2,543,000 and $2,528,000, respectively. The related expense recorded was $100,000 and $280,000 for the fiscal years ended June 30, 2007 and 2006, respectively. Management has set aside funds in the amount of $2,667,000 and $2,528,000 as of June 30, 2007 and 2006, respectively, for the future costs of retiree health care benefits.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions"* (OPEB). The Fund will formally adopt this pronouncement beginning with the fiscal year ending June 30, 2008. GASB 45 requires the Fund to complete an actuarial based estimation of OPEB costs every three years. The computation is based on several assumptions such as expected employee turnover rates, age at retirement, and medical inflation factors. Based upon these assumptions a Annual Required Contribution (ARC) is calculated. This is the amount needed to fund the account for current costs and any unfunded liability related to prior years of employee service.

In January 2007, the Fund hired an actuarial firm and completed its first actuarial study. Based on this study, the assets set aside by the Fund's management at June 30, 2007 are such that there is no unfunded liability. The Fund is in the process of establishing an irrevocable trust to accumulate and invest future retiree health contributions based on the calculated ARC amount. Assets currently set aside for these costs will also be transferred to the trust. In accordance with GASB Statement No. 43, *"Financial Reporting for Postemployment Benefit Plans Other Than Pensions"* a statement of net plan assets and changes in plan assets along with required disclosures relating to the trust will be presented as supplemental information in the Fund's financial statements beginning June 30, 2008. It is the Fund's intent to fully fund the trust based on the computed ARC on an annual basis.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT

Under the terms of certain federal programs, periodic audits are required and certain costs and expenditures may be questioned as not being appropriate under the terms of the program. Such audits could lead to reimbursements to the grantor agencies. Historically, questioned costs have been insignificant. Management of the Fund believes future disallowances, if any, will continue to be insignificant.

The Fund is a defendant in various legal proceedings arising in the normal course of business. In the opinion of management and its legal counsel the ultimate resolution of these proceedings will not have a material adverse effect on the Fund's financial position.

Through its business operations, the Fund is exposed to various risks of loss related to potential loan losses on program mortgages, fire, liability, and employee wrongdoing. To reduce risk of loss on program mortgages, the Fund has various types of mortgage insurance. At June 30, 2007, 49.27% of the Fund's single family Housing Finance Bond Program loans were either VA, USDA Rural Development, or FHA guaranteed. Another 30.79% of these loans carry private mortgage insurance. Substantially all multifamily mortgages are federally insured and/or are subject to HUD Section 8 rental assistance subsidies.

On August 1, 2003, Wheeling-Pittsburgh Steel received a $250,000,000 restructuring loan from a consortium of lenders. The Federal Emergency Steel Guarantee Loan Board primarily guarantees this loan. In connection with this restructuring loan, the Fund has provided an initial loan guarantee in the amount of $10,465,000 through its Economic Development Program to the loan consortium. As a result of principal payments made by Wheeling-Pittsburgh Steel Corporation, the loan guarantee has been reduced to $6,272,000. The West Virginia Economic Development Authority is providing the Fund with a $1,775,000 guarantee toward the Fund's guarantee commitment. The Fund has set aside $4,497,000 for this net commitment.

The Fund is insured against fire for owned assets and liability, and employee negligence through private insurance. Furthermore, key staff members of the Fund are bonded against theft in the aggregate amount of $2,000,000. The Board of Directors has allocated $1,000,000 of the Fund's unrestricted net assets to provide indemnification for the directors and officers of the Fund. Additionally, the Fund has general liability insurance with the State Board of Risk and Insurance Management in the amount of $1,000,000 per occurrence and another $5,000,000 per occurrence with General Star Insurance Company for officers' and directors' indemnity. The Fund pays an annual premium in exchange for such coverage. There have been no significant settlements in excess of insurance coverage during the past three calendar years. In fiscal year 2006, the insurance coverage for Excess liability, including employee negligence and for officers' and directors' indemnity was reduced from $10,000,000 to $5,000,000 by the insurance provider.

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