



West Virginia Housing Development Fund

AUDITED FINANCIAL STATEMENTS

For the years ended June 30, 2012 and 2011

Audited Financial Statements

WEST VIRGINIA HOUSING DEVELOPMENT FUND

For the Years Ended June 30, 2012 and 2011

Audited Financial Statements

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INDEPENDENT AUDITOR'S REPORT

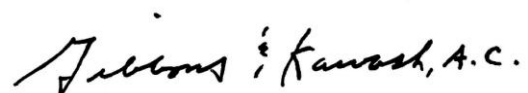
To the Board of Directors
West Virginia Housing Development Fund
Charleston, West Virginia

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, 2012 and 2011, 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, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 11 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



August 29, 2012

WEST VIRGINIA HOUSING DEVELOPMENT FUND MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The West Virginia Housing Development Fund (the Fund) is a public body corporate with statewide responsibility for housing and operates a wide variety of programs to provide safe and affordable housing for residents and families in the State of West Virginia (the State). The Fund is a self-supporting agency and does not receive State appropriations for its operations. Through June 30, 2012, the Fund has provided assistance for more than 113,000 housing or housing-related units.

The permanent staff of the Fund consists of 104 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 21 bond issues totaling \$579,075,000 par amount outstanding under its bond resolutions. The 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, Bond Programs, 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 Bond Programs, 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, 2012, 2011 and 2010.

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 the State. 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 investments, 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:

(Dollars in thousands)	<u>2012</u>	<u>2011</u>	<u>2010</u>
ASSETS			
Current assets	\$ 110,386	\$ 171,460	\$ 180,237
Noncurrent assets:			
Mortgage loans & Restricted mortgage loans, net of allowance for losses	763,345	824,016	854,166
Restricted Federal Program mortgage loans, net of allowance for losses	53,339	53,901	55,770
Restricted cash and cash equivalents	28,758	15,069	24,912
Investments & Restricted investments	124,142	120,419	121,306
Capital assets, net of depreciation	10,016	7,885	2,413
Other assets & Restricted other assets, net of allowance for losses	8,271	8,051	6,018
Total assets	<u>1,098,257</u>	<u>1,200,801</u>	<u>1,244,822</u>
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and other liabilities	18,663	18,580	19,584
Accrued interest payable	3,708	4,728	5,340
Bonds payable	66,245	142,135	232,210
Noncurrent liabilities:			
Bonds & notes payable, net	515,139	559,044	519,182
Federal program advances	53,655	54,324	56,360
Total liabilities	<u>657,410</u>	<u>778,811</u>	<u>832,676</u>
Net assets - Restricted	351,468	334,128	324,711
Net assets - Unrestricted	89,379	87,862	87,435
TOTAL NET ASSETS	<u>\$ 440,847</u>	<u>\$ 421,990</u>	<u>\$ 412,146</u>

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 decrease of \$61,074,000 (35.6%), in Current assets from 2011 to 2012 was primarily due to \$61,110,000 in bond proceeds converted to long-term bonds and transferred to noncurrent cash to purchase loans, the redemption of \$38,890,000 in short-term bonds, and a \$29,622,000 increase in cash from mortgage loan repayments.

The decrease of \$8,777,000 (4.9%), in Current assets from 2010 to 2011 was primarily due to a decrease in cash for disbursements in fiscal year 2011 in the amount of \$5,472,000 for costs related to the construction of the Fund's new office building and \$1,375,000 for special needs disbursements and a decrease of \$1,247,000 in the balance of Mortgage Loans Held for Sale.

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

The decrease of \$60,671,000 (7.4%) in Mortgage loans & Restricted mortgage loans, net of allowance for losses from 2011 to 2012 was primarily due to mortgage loan prepayments and repayments of \$103,790,000 and foreclosures of \$10,037,000 exceeding loan originations of \$53,150,000. Mortgage loan balances in the Bond Programs decreased approximately \$55,390,000 from 2011 to 2012.

The decrease of \$30,150,000 (3.5%) in Mortgage loans & Restricted mortgage loans, net of allowance for losses from 2010 to 2011 was primarily due to mortgage loan prepayments and repayments of \$84,208,000 and foreclosures of \$11,830,000 exceeding loan originations of \$66,678,000. Mortgage loan balances in the Bond Programs decreased approximately \$30,806,000 from 2010 to 2011.

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 increase of \$13,689,000 (90.8%) in Restricted cash and cash equivalents from 2011 to 2012 was due to a \$11,663,000 increase in the balance of funds available to purchase single family mortgage loans and a \$1,823,000 increase due to the proceeds of a long-term investment maturity reinvested short-term. The balance of bond proceeds available for the purchase of single family mortgages is primarily related to the timing of bonds issued for this purpose or recycled funds available for loan purchases.

The decrease of \$9,843,000 (39.5%) in Restricted cash and cash equivalents from 2010 to 2011 was due to a decrease in the balance of funds available to purchase single family mortgage loans. The balance of bond proceeds available for the purchase of single family mortgages is primarily related to the timing of bonds issued for this purpose or recycled funds available for loan purchases.

Investments & Restricted investments

The fluctuations in Investments and Restricted investments from year to year 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 Investments & Restricted investments as of June 30:

(Dollars in thousands)	<u>2012</u>	<u>2011</u>	<u>2010</u>
Balance at beginning of fiscal year	\$ 120,419	\$ 121,306	\$ 122,289
Sales, maturities and amortization	(87,538)	(107,335)	(68,036)
Purchases	85,569	108,085	62,601
Increase (Decrease) in fair value of investments	5,692	(1,637)	4,452
Balance at end of fiscal year	<u>\$ 124,142</u>	<u>\$ 120,419</u>	<u>\$ 121,306</u>

Capital assets, net of depreciation

Capital assets increased \$2,131,000 (27.0%) from 2011 to 2012 and \$5,472,000 (226.8%) from 2010 to 2011 due to the construction of the Fund's new office building.

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

The increase of \$220,000 (2.7%) in Other assets and Restricted other assets, net of allowance for losses from 2011 to 2012 was primarily due to an increase in foreclosed properties.

The increase of \$2,033,000 (33.8%) in Other assets and Restricted other assets, net of allowance for losses from 2010 to 2011 was primarily due to an increase in foreclosed properties.

Accounts payable and other liabilities

The increase of \$83,000 (.4%) in Accounts payable and other liabilities from 2011 to 2012 was primarily due to an increase in tax and insurance escrows held on behalf of the Fund's various mortgagors.

The decrease of \$1,004,000 (5.1%) in Accounts payable and other liabilities from 2010 to 2011 was primarily due to a decrease in funds held for others for the State Neighborhood Stabilization Program in the amount of \$741,000 and a \$431,000 decrease in tax and insurance escrows held on behalf of the Fund's various mortgagors.

Bonds and notes payable, current and noncurrent

As illustrated in the following schedule, the changes in Bonds and notes payable were due to the early redemption or refunding of bonds, scheduled debt service payments, and new bonds and notes issued. The changes in the balance of bonds and notes payable and interest rates generally account for the fluctuations in Accrued interest payable in 2012 and 2011. See *Note D – Bonds & Notes payable, current and noncurrent*.

(Dollars in thousands)	<u>2012</u>	<u>2011</u>	<u>2010</u>
Balance at beginning of the fiscal year			
Bonds payable - current	\$ 142,135	\$ 232,210	\$ 32,095
Bonds payable - noncurrent	559,044	519,182	690,570
Debt issued: Housing Finance Bonds	50,000	130,870	-
New Issue Bond Program	118,620	-	100,000
Other Loan Programs Note payable	-	250	-
Debt paid: Scheduled Debt Service - Bonds & notes payable	(20,651)	(16,594)	(19,197)
Early redemptions and refundings	(267,250)	(164,250)	(51,585)
Amortization of bond premiums	(514)	(489)	(491)
Balance at end of the fiscal year	<u>\$ 581,384</u>	<u>\$ 701,179</u>	<u>\$ 751,392</u>
Bonds payable - current	\$ 66,245	\$ 142,135	\$ 232,210
Bonds & notes payable - noncurrent	515,139	559,044	519,182
Total bonds & notes payable	<u>\$ 581,384</u>	<u>\$ 701,179</u>	<u>\$ 751,392</u>

Federal program advances

The decrease of \$2,036,000 (3.6%) and decrease of \$669,000 (1.2%) in *Federal program advances* from 2010 to 2011 and from 2011 to 2012, respectively, was due to activity fluctuations in the outstanding balance of Federal Programs mortgage loans as a result of loans originated.

Total Net Assets improved by \$9,844,000 (2.4%) from June 30, 2010 to June 30, 2011. From June 30, 2011 to June 30, 2012, **Total Net Assets** improved another \$18,857,000 (4.5%) as the net financial position of the Fund increased to \$440,847,000 at June 30, 2012.

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

(Dollars in thousands)	Fiscal Year Ended June 30		
	2012	2011	2010
REVENUES			
Interest on loans	\$ 44,285	\$ 48,165	\$ 51,725
Pass-through grant revenue	87,565	77,026	59,840
Fee revenue	7,282	7,458	7,683
Net investment earnings (non-operating)	9,717	3,512	11,007
Other	1,643	1,299	1,458
Total Revenues	150,492	137,460	131,713
EXPENSES			
Pass-through grant expense	87,565	77,026	59,840
Interest and debt expense (non-operating)	24,205	29,399	32,962
Loan fees expense	4,382	4,427	4,240
Program expenses, net	5,277	7,246	4,953
Administrative expenses, net	10,206	9,518	9,263
Total Expenses	131,635	127,616	111,258
CHANGES IN NET ASSEIS	18,857	9,844	20,455
NET ASSEIS AT BEGINNING OF YEAR	421,990	412,146	391,691
NET ASSEIS AT END OF YEAR	\$ 440,847	\$ 421,990	\$ 412,146

Interest on loans

The decrease in *Interest on loans* of \$3,880,000 (8.1%) from 2011 to 2012 was primarily due to a decrease in mortgage loan balances from the prior year as well as a decrease in the average mortgage loan rate.

The decrease in *Interest on loans* of \$3,560,000 (6.9%) from 2010 to 2011 was primarily due to a decrease in mortgage loan balances from the prior year as well as a decrease in the average mortgage loan rate.

Pass through grant revenue and Pass through grant expense

This line item represents federal funds received and disbursed to sub-recipients under Federal Programs. In 2009, the American Recovery and Reinvestment Act appropriated funds for the Tax Credit Assistance Program (TCAP) and the Tax Credit Exchange Program (TCEP). Both of these programs were temporary and expired in fiscal year 2012. The TCAP is a grant program to provide funds for capital investments in Low-Income Housing Tax Credit Program properties. The TCEP is a federal grant from the Treasury that allows the exchange of certain tax credits for cash assistance.

The increase of \$10,539,000 (13.7%) from 2011 to 2012 was primarily due to TCEP and HOME disbursements as well as an increase in HAP program disbursements.

The increase of \$17,186,000 (28.7%) from 2010 to 2011 was primarily due to TCAP and TCEP disbursements as well as an increase in HAP program disbursements.

Fee revenue

The decrease of \$176,000 (2.4%) in Fee revenue from 2011 to 2012 was primarily due to a decrease of \$362,000 in fees earned in the HAP program, a decrease of \$191,000 in mortgage loan fees, a decrease of \$98,000 related to multifamily prepayment penalties, a decrease of \$75,000 in multifamily financing fees and an increase of \$553,000 in Low-Income Housing Tax Credit fees.

The decrease of \$225,000 (2.9%) in Fee revenue from 2010 to 2011 was primarily due to a decrease of \$536,000 in Low-Income Housing Tax Credit fees, a decrease of \$24,000 in fees earned in the HAP program, an increase of \$265,000 related to multifamily prepayment penalties and an increase of \$76,000 in multifamily financing fees.

Net investment earnings

Net investment earnings decreased \$7,495,000 (68.1%) from 2010 to 2011 and increased \$6,205,000 (176.7%) from 2011 to 2012 in the comparison of revenues and expenses above. However, Net investment earnings include unrealized gains and losses in the fair market value of investments for each of the fiscal years presented 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, decreased 26.9% from 2010 to 2011 and decreased an additional 10.5% from 2011 to 2012. These fluctuations are due to lower interest rates during fiscal year 2011 and fiscal year 2012.

(Dollars in thousands)	June 30,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net investment income per operating statement	\$ 9,717	\$ 3,512	\$ 11,007
Adjustments for unrealized (gain) loss on fair value of securities	<u>(5,279)</u>	<u>1,444</u>	<u>(4,226)</u>
Interest earned on investments	<u>\$ 4,438</u>	<u>\$ 4,956</u>	<u>\$ 6,781</u>
% Decrease from prior year	(10.5%)	(26.9%)	

Other revenues

The increase of \$344,000 (26.5%) in Other revenues from 2011 to 2012 was primarily due to an increase in gains on sale of mortgage loans in the secondary market.

The decrease of \$159,000 (10.9%) in Other revenues from 2010 to 2011 was primarily due to the reclassification of Neighborhood Stabilization Program administrative fees. These fees were recorded as Other revenues in fiscal year 2010 and reclassified as Administrative expenses, net in fiscal year 2011.

Interest and debt expense

The \$5,194,000 (17.7%) decrease in Interest and debt expense from 2011 to 2012 was primarily due to \$267,250,000 in bond redemptions and refundings during 2012.

The \$3,563,000 (10.8%) decrease in Interest and debt expense from 2010 to 2011 was primarily due to \$164,250,000 in bond redemptions and refundings during 2011.

Loan fees expense

The \$45,000 (1.0%) decrease in Loan fees expense from 2011 to 2012 was primarily due to a decrease in loan origination fees paid to lenders due to a decrease in bond program loan purchases.

The \$187,000 (4.4%) increase in Loan fees expense from 2010 to 2011 was primarily due to an increase in loan origination fees paid to lenders due to an increase in Housing Finance loan purchases.

Program expenses, net

The \$1,969,000 (27.2%) decrease in *Program expenses, net* from 2011 to 2012 was primarily due to a decrease of \$1,407,000 in provision for loan loss expenses, a decrease of \$743,000 for Special Needs disbursements, a decrease of \$323,000 in land development expenses, a decrease of \$131,000 in losses on foreclosed properties, net of increases in cost of issuance expenses and building depreciation expenses of \$223,000 and \$352,000, respectively.

The \$2,293,000 (46.3%) increase in *Program expenses, net* from 2010 to 2011 was primarily due to an increase of \$1,016,000 in losses on foreclosed properties, an increase of \$893,000 in cost of issuance expenses, an increase of \$766,000 for Special Needs disbursements and a \$347,000 decrease in provision for loan loss expenses.

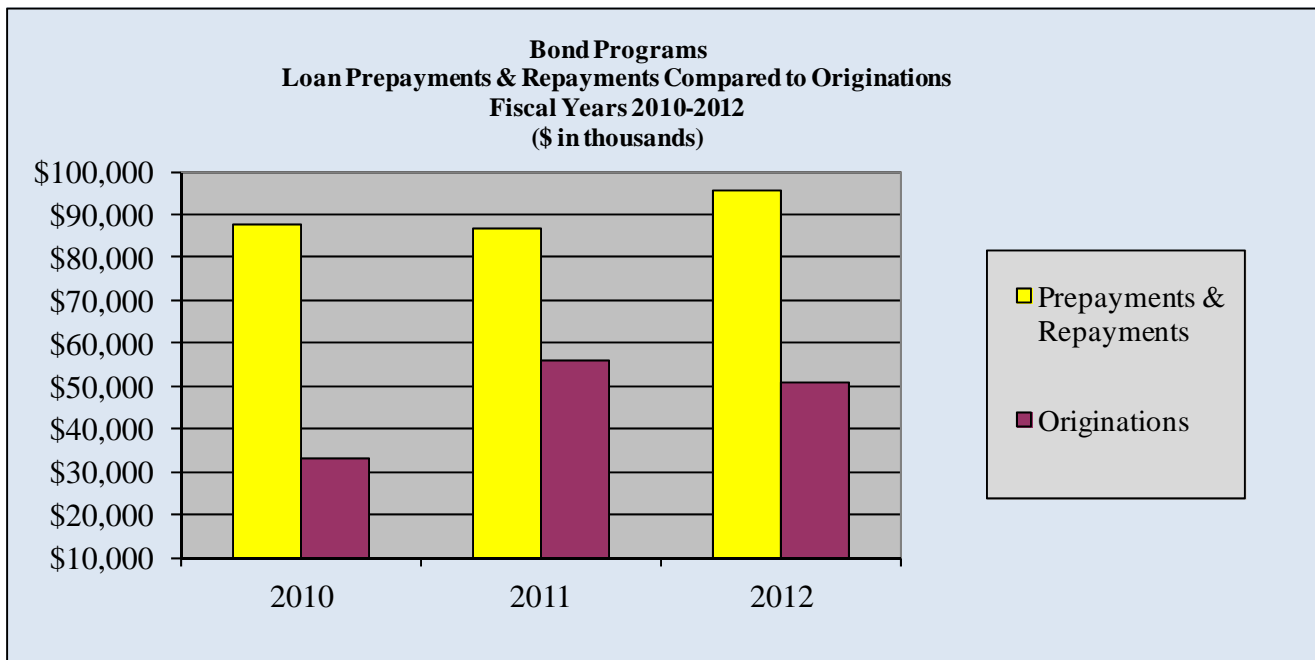
OVERVIEW OF THE FINANCIAL STATEMENTS

Mortgage Lending

The Fund’s Bond Programs are the core-housing programs and the primary source of income for the Fund. Various economic and regulatory factors such as prevailing economic conditions, mortgage interest rates, investment rates, the demand for housing, the cost of housing and of operating housing programs, the volume of mortgage lending activity in the State and other factors affecting the supply of housing in the State can create significant challenges for the Fund in both the Bond Programs and its overall operations.

During fiscal year 2009, mortgage interest rates dramatically decreased as a result of the sharp decline in the housing industry related to subprime lending and the U.S. government’s takeover of Fannie Mae and Freddie Mac. With this decline and low interest rates continuing into fiscal year 2012, the Fund’s mortgage rates have not been competitive to the conventional loan market. In addition, lending guidelines have been more restrictive, preventing many borrowers from qualifying for home mortgage loans. Consequently, the Bond Programs mortgage loan balances decreased \$30,806,000 in fiscal 2011 and an additional \$55,390,000 in fiscal 2012 as a result of mortgage loan repayments and prepayments exceeding loan originations. 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 2010 through fiscal year 2012 for the Bond Programs.



Interest rates on new single family bond loans originated in fiscal year 2012 have averaged approximately 3.36%. 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 has declined as follows.

June 30, 2010	5.76%
June 30, 2011	5.67%
June 30, 2012	5.40%

Despite significant increases in the amount of foreclosures and delinquency rates nationwide, the Fund’s foreclosures and delinquency rates for loans over two months delinquent have remained consistently lower than the State and National rates. Nationwide increases began in late 2006 and continue to remain high. The increases are a result of sub-prime lending, lower home values and a weakened economy. The Fund attributes the steadiness of its delinquency rates to sound underwriting practices and with the exception of a few counties within the State, no significant decline in home values. Also, the Fund’s Bond Programs consists of 30-year fixed rate loans and no sub-prime loans.

Delinquency Rates	WV Housing Development Fund			WV Rates*	USA*
	As of June 30,			As of	
	2010	2011	2012	March 31, 2012	
<u>Months Past Due</u>					
One	4.02%	4.15%	4.34%	4.12%	2.81%
Two	1.45%	1.31%	1.14%	1.30%	1.08%
Three	0.81%	0.53%	0.65%	2.15%	3.05%
In foreclosure	1.61%	1.76%	1.68%	2.07%	4.39%

*Most current data available.

Investments

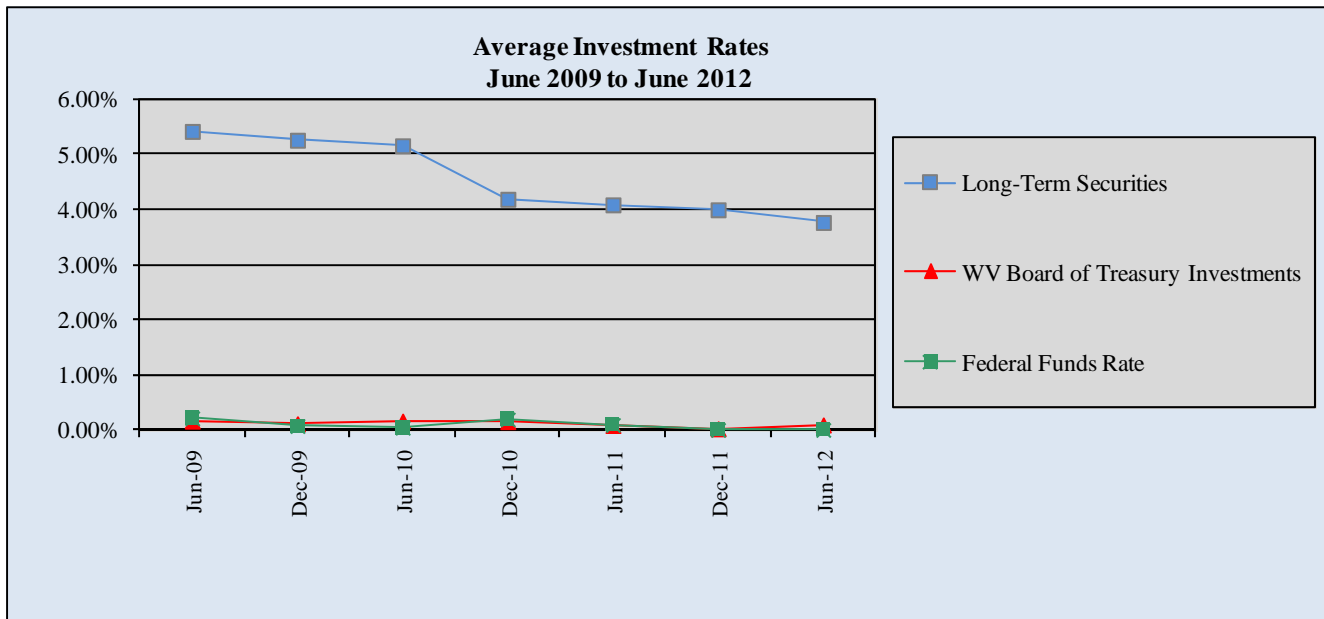
The Fund invests cash not required for immediate disbursement as permitted by the Act, the bond resolutions, and the Board approved Investment Policy. Funds related to the Bond Programs capital reserves and the Bond Insurance Account are primarily invested in long-term United States government and agency 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. The interest earnings on these investment types are less affected by the fluctuation in short-term interest rates. However, as these long-term securities mature or are called, they are invested at significantly lower rates.

Loan proceeds and revenues of the Bond Programs, Other Loan Program, and operating funds are primarily on deposit with a bank, invested in FDIC insured certificates of deposit or collateralized certificates of deposit. All bank deposits are either FDIC insured or collateralized by permitted investments. The remaining funds are on deposit with the West Virginia Board of Treasury Investments (WVBOTI). Such funds are extremely sensitive to short-term interest rate fluctuations.

As shown in the following chart, the average investment rate for short-term investments and the WVBOTI has been consistent with the Federal Funds rate. During fiscal year 2009, the Federal Reserve decreased the Federal funds rate to a historical low of 0.00% to 0.25% where it has remained through fiscal year 2012. With such a decline in the Federal funds rate, interest rates fell dramatically. Due to market conditions the Fund stopped investing in repurchase agreements and increased investing in Demand Deposit Accounts, FDIC insured certificates of deposit and in collateralized certificates of deposit to maximize investment yields and preserve principal.

The low interest rate environment has directly impacted the Fund’s investment earnings as they decreased 26.9% from 2010 to 2011, net of unrealized gains or losses, and an additional 10.5% from 2011 to 2012, net of unrealized gains or losses. 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.

Below is a summary of the average investment rates from June 2009 to June 2012:



Debt Management

The Fund issues qualified mortgage revenue bonds to fund its single family Bond Programs. 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 are typically lower than the long-term bond rates, this creates 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 to be secured by investments of the Bond Insurance Account as advances are received and is a general obligation of the Fund. At June 30, 2012, no advances had been drawn on this line of credit, and accordingly, no balance is outstanding.

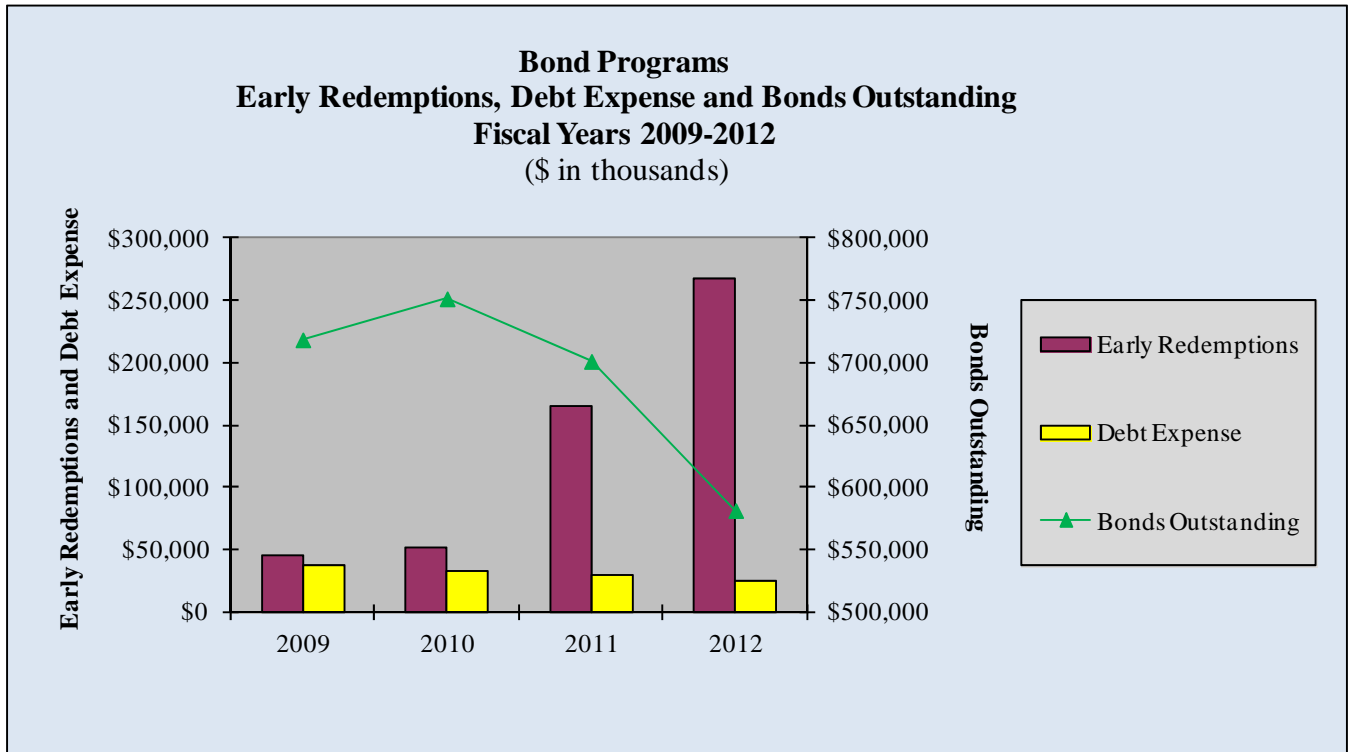
When bonds are issued from the bond volume allocation, known as “new money” bonds, certain repayments and prepayments of mortgage loans made from these proceeds may be “recycled” into additional mortgage loans for ten years. The Fund uses recycling to supplement its bond issues by using prepayments for 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 2013 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 2010, 2011 and 2012, the Fund redeemed or refunded \$51,585,000, \$164,250,000 and \$267,250,000 in bonds, respectively. The increase in early redemptions for 2011 and 2012 as compared to 2010 is a factor of an increase in the amount of funds received from early prepayments of mortgages and redeeming bonds in lieu of recycling. In addition, 2011 and 2012 redemptions included the refunding of bonds in the amount of \$93,870,000 and \$105,510,000, respectively.

Debt expense was \$32,962,000, \$29,399,000 and \$24,205,000 in fiscal years 2010, 2011 and 2012, respectively. Debt expense decreased in 2011 as compared to 2010 and in 2012 as compared to 2011 due to lower bond balances as a result of redemptions exceeding new debt issuances and interest savings resulting from refundings of high rate bonds.

In October 2009, the U.S. Treasury announced a plan designed to aid state housing finance agencies to access the housing bond market. The program was offered under the Housing and Economic Recovery Act (HERA) passed in July 2008. To participate in the U.S. Treasury plan, the Fund adopted a new bond resolution titled the General New Issue Bond Program Resolution. In December 2009, convertible option bonds were sold to the U.S. Treasury in the amount of \$100,000,000. Proceeds of these bonds were deposited in a trust account approved by the Treasury. During fiscal year 2012, the Fund converted \$61,110,000 of these bonds to long-term single family housing bonds and redeemed \$38,890,000 of the bonds with the remaining proceeds on deposit with the Trustee. As of June 30, 2012, \$34,734,000 in mortgages have been made under this program.

The following chart illustrates early bond redemptions, debt expense and bonds outstanding in the Bond Programs.



Other

The Fund services all of its outstanding mortgage loans and services loans on behalf of Fannie Mae, Freddie Mac, the West Virginia Affordable Housing Trust and the West Virginia Jobs Investment Trust. The Fund is the largest loan servicer in the State with serviced loans of \$1.3 billion. Servicing fee income in the amount of \$3,496,000 represents 6.57% of the Fund’s operating revenues, net of pass through grant revenue, for the fiscal year ended June 30, 2012.

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 Acting Executive Director, West Virginia Housing Development Fund, at 5710 MacCorkle Ave. SE, Charleston, WV 25304, 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,	
	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents-- (Notes A and C)	\$ 22,951	\$ 17,199
Accrued interest on loans	262	246
Accrued interest on investments	10	29
Accounts receivable and other assets, net of allowance for losses-- (Note A)	629	754
Mortgage loans held for sale-- (Note A)	3,077	384
Restricted cash and cash equivalents-- (Notes A and C)	79,365	148,375
Restricted accrued interest on loans	3,163	3,446
Restricted accrued interest on investments	929	1,027
Total current assets	<u>110,386</u>	<u>171,460</u>
Noncurrent assets:		
Mortgage loans, net of allowance for losses-- (Note A)	47,553	48,758
Capital assets, net of depreciation-- (Note A)	10,016	7,885
Investments-- (Notes A and C)	5,540	14,600
Restricted cash and cash equivalents-- (Notes A and C)	28,758	15,069
Restricted investments-- (Notes A and C)	118,602	105,819
Restricted mortgage loans, net of allowance for losses-- (Note A)	769,131	829,159
Restricted other assets, net of allowance for losses-- (Note A)	8,271	8,051
Total noncurrent assets	<u>987,871</u>	<u>1,029,341</u>
Total assets	<u>1,098,257</u>	<u>1,200,801</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other liabilities-- (Note A)	18,663	18,580
Accrued interest payable	3,708	4,728
Bonds payable-- (Note D)	66,245	142,135
Total current liabilities	<u>88,616</u>	<u>165,443</u>
Noncurrent liabilities:		
Federal program advances-- (Note A)	53,655	54,324
Bonds & notes payable-- (Note D)	515,139	559,044
Total noncurrent liabilities	<u>568,794</u>	<u>613,368</u>
Total liabilities	<u>657,410</u>	<u>778,811</u>
Net assets:		
Restricted for debt service	278,858	260,967
Restricted by state statute for bond insurance and land development	72,610	73,161
Invested in capital assets	10,016	7,885
Unrestricted	79,363	79,977
TOTAL NET ASSETS	<u>\$ 440,847</u>	<u>\$ 421,990</u>

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,	
	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Interest on loans	\$ 44,285	\$ 48,165
Pass-through grant revenue-- (Note A)	87,565	77,026
Fee revenue-- (Note A)	7,282	7,458
Other-- (Note A)	1,643	1,299
	<u>140,775</u>	<u>133,948</u>
OPERATING EXPENSES		
Pass-through grant expense-- (Note A)	87,565	77,026
Loan fees expense-- (Note A)	4,382	4,427
Program expenses, net-- (Note A)	5,277	7,246
Administrative expenses, net-- (Note A)	10,206	9,518
	<u>107,430</u>	<u>98,217</u>
OPERATING INCOME	33,345	35,731
NON-OPERATING - FINANCING AND INVESTING REVENUES (EXPENSES)		
Net investment earnings	9,717	3,512
Interest and debt expense	(24,205)	(29,399)
	<u>(14,488)</u>	<u>(25,887)</u>
CHANGES IN NET ASSETS	18,857	9,844
NET ASSETS AT BEGINNING OF YEAR	<u>421,990</u>	<u>412,146</u>
NET ASSETS AT END OF YEAR	<u>\$ 440,847</u>	<u>\$ 421,990</u>

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,	
	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from lending activities	\$ 158,611	\$ 141,659
Receipts from other operating activities	8,895	8,679
Receipts (disbursements) from escrows or advances	21	(1,126)
Receipts for federal lending activities	28,816	20,617
Receipts for federal activities	57,940	55,514
Disbursements for federal activities	(57,854)	(55,440)
Purchase mortgage loans	(83,019)	(88,324)
Purchase mortgage loans held for sale	(77,936)	(61,171)
Sales of mortgage loans	75,243	62,418
Payments to employees for salaries and benefits	(7,441)	(7,223)
Payments to vendors	(11,998)	(11,470)
Net cash provided by operating activities	<u>91,278</u>	<u>64,133</u>
CASH FLOWS USED IN NONCAPITAL FINANCING ACTIVITIES		
Net proceeds from bonds and notes	168,620	131,120
Retirement of bonds and notes	(287,901)	(180,844)
Interest paid	(25,694)	(30,479)
Net cash used in noncapital financing activities	<u>(144,975)</u>	<u>(80,203)</u>
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Disbursements for construction of office building	(2,313)	(5,472)
Net cash used in capital and related financing activities	<u>(2,313)</u>	<u>(5,472)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	87,566	107,390
Purchase of investments	(85,569)	(108,085)
Net investment earnings	4,444	5,182
Net cash provided by investing activities	<u>6,441</u>	<u>4,487</u>
Net decrease in cash and cash equivalents	(49,569)	(17,055)
Cash and cash equivalents at beginning of year	180,643	197,698
Cash and cash equivalents at end of year	<u>\$ 131,074</u>	<u>\$ 180,643</u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 22,951	\$ 17,199
Restricted cash and cash equivalents - current	79,365	148,375
Restricted cash and cash equivalents - noncurrent	28,758	15,069
	<u>\$ 131,074</u>	<u>\$ 180,643</u>

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,	
	<u>2012</u>	<u>2011</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 33,345	\$ 35,731
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for loan losses	(43)	(1,450)
Change in assets and liabilities:		
Accrued interest on loans	(12)	10
Mortgage loans held for sale	(2,693)	4,104
Other assets	219	(107)
Restricted accrued interest on loans	279	149
Restricted other assets	(164)	(1,401)
Mortgage loans, net	286	11,985
Restricted mortgage loans, net	61,022	18,272
Accounts payable	(292)	(1,124)
Federal program advances	(669)	(2,036)
Net cash provided by operating activities	<u>\$ 91,278</u>	<u>\$ 64,133</u>
Noncash investing and financing activities:		
Increase (Decrease) in fair value of investments	\$ 6,723	\$ (1,444)
Net amortization of premiums/discounts on investments	28	56

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

WEST VIRGINIA HOUSING DEVELOPMENT FUND
NOTES TO FINANCIAL STATEMENTS, AN INTEGRAL PART OF THE FINANCIAL STATEMENTS
June 30, 2012

NOTE A – AGENCY DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

The West Virginia Housing Development Fund (the Fund) is a governmental instrumentality of the State of West Virginia (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 receives no appropriations from the State; however it 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, the Bond Programs, Other Loan Programs, Land Development Program, Bond Insurance Account, and Federal Programs.

The General Account includes the results of the Fund's loan servicing operations, administrative expenses of the Fund's operations, operations of the Fund's building and fee income related to the administration of the Section 8 Housing Assistance Payments Programs (HAPs Program) and the Low-Income Housing Tax Credit Program.

The Bond Programs include the activities of the single family and multifamily bond programs under the Housing Finance Bond Program and the General New Issue Bond Program resolutions, the purpose of which is to provide affordable housing throughout the State. Assets and revenues of the Bond Programs are restricted subject to the provisions of the bond resolutions and are available for other purposes only to the extent they are not required to meet specified reserve and funding provisions of the resolutions.

Other Loan Programs include the Homeownership Assistance Program, Secondary Market Program, Leveraged Loan Program, Economic Development Program, Mini-Mod Renovation Program, Flood Program, Demolition Program, Home Emergency Loan Program, Low-Income Assisted Mortgage Program and the Special Needs Program, all of which have been financed from the general reserves of the Fund.

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. Both the Housing Finance Bond Program and the General New Issue Bond Program are considered Mortgage Finance Bonds.

Federal Programs include the United States Department of Housing and Urban Development's (HUD) HOME Investment Program (HOME), Tax Credit Assistance Program (TCAP), HAPs Program and the U.S. Treasury's Tax

Credit Exchange Program (TCEP) 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.

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, short-term agency notes, 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.

Accounts receivable and other assets, net of allowance for losses include accounts receivables, land for housing purposes and foreclosed properties, net of an allowance for estimated probable declines in net realizable value.

(Dollars in thousands)	June 30, 2012			June 30, 2011		
	Balance	Allowance	Net	Balance	Allowance	Net
Accounts receivable and other Assets:						
Accounts receivable	\$ 548	\$ (1)	\$ 547	\$ 595	\$ (3)	\$ 592
Land	138	(56)	82	138	(56)	82
Foreclosed property	32	(32)	-	198	(118)	80
Total	<u>\$ 718</u>	<u>\$ (89)</u>	<u>\$ 629</u>	<u>\$ 931</u>	<u>\$ (177)</u>	<u>\$ 754</u>

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, 2012, the Fund had commitments to purchase loans of \$19,228,233, net of estimated fallout, and commitments to sell loans of \$6,454,000.

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 were \$14,634,000 at June 30, 2012 and \$14,698,000 at June 30, 2011. 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.

(Dollars in thousands)	June 30, 2012			June 30, 2011		
	Balance	Allowance	Net	Balance	Allowance	Net
Unrestricted Mortgage Loans:						
General Account	\$ 4,039	\$ (2,595)	\$ 1,444	\$ 6,950	\$ (2,685)	\$ 4,265
Other Loan Programs	58,509	(12,400)	46,109	56,887	(12,394)	44,493
Total	<u>\$ 62,548</u>	<u>\$ (14,995)</u>	<u>\$ 47,553</u>	<u>\$ 63,837</u>	<u>\$ (15,079)</u>	<u>\$ 48,758</u>

Capital assets, net of depreciation include land and a vacant office building owned by the Fund stated at its original cost of \$220,000 and \$880,000, respectively, net of accumulated depreciation on the building of \$880,000. The building is fully depreciated. In fiscal year 2009, the Fund purchased land in anticipation of constructing a new office building on the site. Construction began in fiscal year 2011 and upon completion during fiscal year 2012, the Fund moved to its new office building. The land, capitalized costs of the new building and equipment and furnishings are also included in Capital assets and are stated at its original cost of \$1,810,000, \$7,282,000, and \$1,056,000, respectively, net of accumulated depreciation on the building and furnishings of \$182,000 and \$170,000, respectively.

The new office building will be depreciated on a straight-line basis over its estimated useful life of 40 years. Office equipment and furnishings will be depreciated over 5 years. Office furniture, equipment, and improvements, unrelated to the construction of the new office building 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.

(Dollars in thousands)	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
Land	\$ 2,030	\$ -	\$ -	\$ 2,030
Construction in progress	5,696	1,586	7,282	-
Buildings	880	7,282	-	8,162
Equipment and furnishings	159	897	-	1,056
	<u>8,765</u>	<u>9,765</u>	<u>7,282</u>	<u>11,248</u>
Accumulated depreciation:				
Buildings	880	182	-	1,062
Equipment and furnishings	-	170	-	170
	<u>880</u>	<u>352</u>	<u>-</u>	<u>1,232</u>
Total	<u>\$ 7,885</u>	<u>\$ 9,413</u>	<u>\$ 7,282</u>	<u>\$ 10,016</u>

Restricted investments: The Fund established guidelines for the investment of its funds to meet the requirements of the bond resolutions and the Act. Currently, investments consist primarily of United States government and agency obligations and certificates of deposit 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 Bond 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.

(Dollars in thousands)	<u>June 30, 2012</u>			<u>June 30, 2011</u>		
	<u>Balance</u>	<u>Allowance</u>	<u>Net</u>	<u>Balance</u>	<u>Allowance</u>	<u>Net</u>
Restricted Mortgage Loans:						
General Account	\$ 579	\$ (574)	\$ 5	\$ 626	\$ (622)	\$ 4
Land Development	3,785	(1,757)	2,028	5,454	(1,495)	3,959
Bond Insurance Account	17,357	(759)	16,598	19,499	(755)	18,744
Bond Programs	706,735	(9,574)	697,161	761,395	(8,844)	752,551
Federal Programs	123,324	(69,985)	53,339	98,820	(44,919)	53,901
Total	<u>\$ 851,780</u>	<u>\$ (82,649)</u>	<u>\$ 769,131</u>	<u>\$ 885,794</u>	<u>\$ (56,635)</u>	<u>\$ 829,159</u>

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 the nonprofits will only be repaid if the nonprofit fails to provide the services required as a condition of receiving HOME funds. Federal Programs also includes TCAP and TCEP, which were designed to assist in the development of Low-Income Housing Tax Credit Program properties. These funds will only be repaid if the recipient fails to comply with certain covenants of their agreement. Therefore, HOME, TCAP and TCEP projects are recorded as restricted mortgage loans and the TCAP, TCEP and nonprofit HOME projects have a corresponding 100% loss allowance in the Statements of Net Assets.

Most loans in the Bond Programs 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.

(Dollars in thousands)	June 30, 2012			June 30, 2011		
	Balance	Allowance	Net	Balance	Allowance	Net
Restricted other assets:						
Accounts receivable	\$ 303	\$ (166)	\$ 137	\$ 302	\$ (166)	\$ 136
Land	2,577	(1,955)	622	2,601	(1,990)	611
Foreclosed property	10,079	(2,567)	7,512	9,694	(2,390)	7,304
Total	<u>\$ 12,959</u>	<u>\$ (4,688)</u>	<u>\$ 8,271</u>	<u>\$ 12,597</u>	<u>\$ (4,546)</u>	<u>\$ 8,051</u>

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 Bond Programs are restricted to meet specified reserve and funding provisions in accordance with the bond resolutions. 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 or other grantor agencies. 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 awards 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, TCAP, TCEP 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, tax credit 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 \$1,301,000,000 and \$1,347,000,000 at June 30, 2012 and 2011, respectively. Of this total, the portfolio serviced by the Fund on behalf of others approximated \$379,327,000 and \$391,992,000 at June 30, 2012 and 2011, respectively.

Other revenues consist primarily of rental income, gains on sale of mortgages in the Secondary Market Program, 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, losses on sales of foreclosed properties acquired through the Fund's mortgage lending activities and costs of bond issuance. The Fund expenses bond issuance costs in the period the related bonds are issued and it does not amortize the costs. 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 buildings owned by the Fund.

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 2011 financial statements have been reclassified to conform to the 2012 presentation. Such reclassifications had no effect on Total Net Assets.

NOTE B – ASSETS FOR RESERVED AND OTHER PURPOSES

Assets and revenues of the Bond Programs are subject to the provisions of the bond resolutions and are available for other purposes only to the extent they are not required to meet specified reserve and funding provisions of the resolutions. The Fund, to the extent such monies become available under the terms of the resolutions, has pledged to maintain the net assets of its Bond Programs at a level to preserve the Fund's bond ratings. In the event that the Fund fails to comply with the terms of the bond resolutions the holders of such obligations would have recourse to the unrestricted assets of the Fund. The Land Development Program and the Bond Insurance Account are both restricted by State statute.

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 \$9,713,000 from Other Loan Programs for various loans / projects at June 30, 2012. These amounts are included in Unrestricted net assets. The Fund is actively accepting applications from prospective recipients to originate loans from amounts allocated by the Board of Directors from 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 2013 administrative budget of \$11,882,700 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 Bond Programs and the Board approved Investment Policy. Permitted investments include a wide variety of securities and obligations such as certain corporate deposits, money market accounts, 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, FDIC insured Certificates of Deposits or collateralized certificates of deposit. The Investment Policy also permits the Fund to invest a maximum of \$40,000,000 with the WVBOTI of which a maximum of \$20,000,000 can be invested in the West Virginia Money Market Pool. 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:

(Dollars in thousands)	June 30, 2012			June 30, 2011	
	Weighted Avg	Amortized	Estimated	Amortized	Estimated
	Maturity	Cost	Fair Value	Cost	Fair Value
Fannie Mae MBS pools	18.44 years	\$ 3,885	\$ 4,279	\$ 5,058	\$ 5,532
Federal agency securities	11.33 years	42,040	56,649	42,270	52,088
U.S. Treasury securities	9.92 years	6,330	9,401	6,321	8,405
West Virginia General Obligations	1.34 years	1,546	1,540	1,300	1,300
Mortgages held for investment purposes	22.31 years	19,744	19,744	22,749	22,749
Demand Deposits, Money Market Funds	1 day	48,203	48,203	48,430	48,430
Collateralized CDs	86 days	48,284	48,284	23,773	23,773
FDIC Insured CDs	261 days	48,245	48,245	47,326	47,326
WVBOTI deposits	1 day	38,615	38,615	14,012	14,012
US Treasury Escrow, Money Market Funds	1 day	-	-	100,196	100,196
Total investments, including cash equivalents		<u>\$ 256,892</u>	<u>\$ 274,960</u>	<u>\$ 311,435</u>	<u>\$ 323,811</u>

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 Bond Programs which are currently invested in long-term U.S. Government and government agency obligations and long-term certificates of deposit. The Bond Insurance Account, which provides additional reserves for the payment of the Housing Finance Bonds and the General New Issue Program Bonds, is currently invested in U.S. Government and government agency obligations as well as mortgage loans for investment purposes and certificates of deposit. 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, Other Loan Program funds and general operating funds. Other funds are primarily invested short-term 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.

	<u>Permitted Maturity Limit</u>	<u>Average Maturity as of June 30, 2012</u>
Reserve Funds	30 Years	11 years
Bond Insurance Funds	15 Years	8 years
Other Funds	4 years	5 months
Funds Held for Others	1 year	1 day

Credit Risk – Although permitted by the Act, the Fund’s Investment Policy prohibits investment in other State and Local obligations and prohibits investment in corporate debt instruments. 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, 2012, the Fund’s investments in the WVBOTI are rated AAAM. Federal agency securities consist of Fannie Mae, Federal Farm Credit Bank, Federal Home Loan Bank and Freddie Mac all of which are rated AA+. Fannie Mae MBS pools are also rated AA+. Certificates of deposit are either FDIC insured through the Certificate of Deposit Account Registry Service (CDARS) or collateralized with an irrevocable standby letter of credit issued by the Federal Home Loan Bank of Pittsburgh, which is rated AA+. Money Market Funds are invested in the Federated Government Obligations Fund and are rated AA+. Mortgages held for investment purposes are not rated.

Concentration of Credit Risk – The Investment Policy limits the percentage or amount of the investment portfolio that may be invested in various types of issuers as indicated in the chart below. 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.

As of June 30, 2012			
(Dollars in thousands)			
	Maximum of Portfolio	Invested Funds	% of Total Investment
Direct Federal Obligations	100%	\$ 6,330	3%
Federal Agency Obligations	90%	45,925	19%
Federally Guaranteed Obligations	100%	-	0%
Demand Deposits, Time Deposits	30%	29,689	12%
Collateralized CDs	\$50,000	48,284	20%
CDARS FDIC Insured CDs	\$50,000	48,245	20%
West Virginia Obligations	15%	1,546	1%
ICS FDIC Insured Money Market Funds	\$20,000	3,916	2%
Mortgages Held for Investment Purposes	30%	19,744	8%
Money Market Funds	25%	4,161	2%
WVBOTI deposits	\$40,000	34,418	14%
TOTAL		\$ 242,258	100%
Funds Held for Others *	N/A	14,634	
TOTAL INVESTED FUNDS		\$ 256,892	

* Funds held for others not applicable to limit calculations.

Custodial Credit Risk – Deposits - 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, or State of West Virginia obligations.

The Fund’s cash, including escrow funds, had a carrying value of \$48,203,000 and \$48,430,000 as of June 30, 2012 and 2011, respectively. Bank balances approximated \$48,297,000 and \$49,277,000 as of June 30, 2012 and 2011, respectively, of which approximately \$27,288,000 and \$10,835,000 was covered by federal depository insurance as of June 30, 2012 and 2011, respectively, and \$18,609,000 and \$26,156,000 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, 2012 and 2011, respectively. Also included in the bank balances above are trust account money market fund balances of \$2,400,000 and \$12,286,000 as of June 30, 2012 and 2011, respectively, which are not subject to custodial credit risk.

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 agency obligations owned by the Fund are registered in the Fund’s name or the Fund’s designated trustee. 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:

(Dollars in thousands)	June 30,	
	2012	2011
Cash and cash equivalents	\$ 22,951	\$ 17,199
Current restricted cash and cash equivalents	79,365	148,375
Noncurrent restricted cash and cash equivalents	28,758	15,069
Restricted investments	118,602	105,819
Investments	5,540	14,600
Plus mortgages held for investment purposes	19,744	22,749
Total Investments and cash equivalents	<u>\$ 274,960</u>	<u>\$ 323,811</u>
Less unrealized gains	18,068	12,376
Total Invested Funds	<u>\$ 256,892</u>	<u>\$ 311,435</u>

In accordance with GASB 31 at June 30, 2012, the Fund has an unrealized gain on investments of \$18,068,000. This represents a \$5,692,000 increase from the June 30, 2011 unrealized gain on investments. A portion of this unrealized gain, \$1,270,000 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, 2012 and to properly reflect the rebate liability, a \$5,279,000 increase was recorded in *Net investment earnings* in the Statements of Revenues, Expenses, and Changes in Net Assets for year ended June 30, 2012.

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 Bond Programs are used to finance mortgage loans to eligible State borrowers and to establish certain reserves as required by the resolutions. The mortgage loans are secured by deeds of trust and approximately 75.55% of 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 resolutions, and the rights and interest of the Fund in and to the mortgage loans. Principal and interest paid on bonds and notes payable for the year ended June 30, 2012 and 2011 was \$208,085,000 and \$117,453,000, respectively. In addition, 2012 and 2011 included the refunding of bonds in the amount of \$105,510,000 and \$93,870,000, respectively. The 2012 refundings reduced total debt service payments over the next 20 years by approximately \$45,060,000 and resulted in an economic gain (difference between the present value of the debt service payments of the refunded bonds and refunding bonds) of approximately \$25,745,000. Total pledged revenues in 2012 and 2011 were \$148,030,000 and \$133,997,000, respectively.

The On-Site Systems Loan Program (the OSLP) was created in September 2007 in partnership with the West Virginia Department of Environmental Protection (the DEP). Under this program the Fund may borrow up to \$1,000,000 from the DEP Clean Water Revolving Loan Fund. These funds are then loaned to State residents to upgrade, replace or repair inadequate septic systems. The Fund is obligated to repay the amount borrowed from the DEP only to the extent the Fund receives payments from loan recipients. At June 30, 2012, Bonds & notes payable - noncurrent include a \$606,000 note payable due to DEP related to this program under Other Loan Programs.

To reduce its debt expense, the Fund redeems bonds from prepayments of the mortgages in its portfolio when it is prudent to do so. 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.

Most 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 bond resolutions. 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, 2012 and 2011, the Fund redeemed or refunded \$267,250,000 and \$164,250,000 of bonds, respectively, at redemption prices that approximated their carrying value.

The following charts summarize bond and note activity from 2011 to 2012 and 2010 to 2011, respectively.

	<u>Bonds Payable Current</u>	<u>Bonds & Notes Payable Noncurrent</u>	<u>Bonds & Notes Payable Total</u>
Outstanding Balance, June 30, 2011	\$ 142,135	\$ 559,044	\$ 701,179
Debt Issued	-	168,620	168,620
Debt Paid	(20,595)	(56)	(20,651)
Early Redemptions	(113,545)	(153,705)	(267,250)
Amortization of Premium	-	(514)	(514)
Reclassification from noncurrent to current	58,250	(58,250)	-
Outstanding Balance, June 30, 2012	<u>\$ 66,245</u>	<u>\$ 515,139</u>	<u>\$ 581,384</u>

	<u>Bonds Payable Current</u>	<u>Bonds & Notes Payable Noncurrent</u>	<u>Bonds & Notes Payable Total</u>
Outstanding Balance, June 30, 2010	\$ 232,210	\$ 519,182	\$ 751,392
Debt Issued	-	131,120	131,120
Debt Paid	(16,545)	(49)	(16,594)
Early Redemptions	(96,895)	(67,355)	(164,250)
Amortization of Premium	-	(489)	(489)
Reclassification from noncurrent to current	23,365	(23,365)	-
Outstanding Balance, June 30, 2011	<u>\$ 142,135</u>	<u>\$ 559,044</u>	<u>\$ 701,179</u>

The following is a summary of the notes outstanding in Other Loan Programs and bonds outstanding in the Housing Finance Bond Program and the General New Issue Bond Program:

	Original Amount Authorized	Outstanding at June 30,	
		2012	2011
	(Dollars in thousands)		
<u>OTHER LOAN PROGRAMS</u>			
Notes Payable (0.00%) ⁽¹⁾	\$ 750	\$ 606	\$ 662
<u>HOUSING FINANCE BOND PROGRAM</u>			
1997 Series C	46,040	-	36,770
1998 Series F (5.70%), due 2012-2013	2,235	320	520
2001 Series C	50,000	-	50,000
2001 Series D	79,665	-	18,740
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 2012-2013	16,800	1,740	3,410
2004 Series A (4.40%), due 2012-2033	30,000	17,910	20,385
2004 Series B (4.90%), due 2012	20,000	2,700	12,685
2004 Series C (4.35%), due 2012-2034	35,000	23,415	25,785
2005 Series A (4.375%), due 2012-2034	30,000	18,845	21,495
2005 Series B (4.40%), due 2012-2032	60,110	28,920	34,410
2005 Series C (4.50%), due 2012-2034	30,000	19,305	21,860
2006 Series B (4.70%), due 2012-2040	30,000	27,720	28,175
2006 Series C (5.00%), due 2012-2039	40,000	24,575	28,150
2006 Series D (4.00% to 5.75%), due 2012-2036	35,000	22,420	25,880
2007 Series A (4.00% to 5.50%), due 2012-2037	60,000	39,430	45,320
2007 Series B (4.45% to 6.00%), due 2012-2037	40,000	10,690	20,970
2007 Series C (4.05% to 5.75%), due 2012-2037	35,000	9,275	18,665
2008 Series A (4.10% to 5.05%), due 2012-2018	20,000	4,845	8,610
2008 Series B (variable rate adusted weekly) due 2030-2038	10,000	10,000	10,000
2010 Series A,B,C (1.60% to 4.70%), due 2012-2040	130,870	108,445	123,970
2011 Series A (0.98% to 3.622%), due 2012-2021	50,000	47,850	-
<u>GENERAL NEW ISSUE BOND PROGRAM</u>			
2009 Series A	100,000	-	100,000
2011 A (0.40% to 3.90%), due 2012-2041	51,850	51,400	-
2012 A (0.20% to 3.35%), due 2012-2041	66,770	66,770	-
Total bonds payable, excluding unamortized premium		579,075	698,300
Unamortized bond premium, net		1,703	2,217
Total notes payable		606	662
Total bonds & notes payable, net of unamortized premium		<u>\$ 581,384</u>	<u>\$ 701,179</u>
⁽¹⁾ Payments are due to the DEP as the Fund receives payments from OSLP loan recipients.			

Total bonds payable does not include \$10,130,000 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.

The following is a summary of scheduled annual principal and interest for bonds in the Bond Programs for the five years commencing July 1, 2012 and thereafter to maturity.

Bonds				
Maturing During		Principal	Interest	Total
Year Ending June 30:				
(Dollars in thousands)				
2013	(1)	\$ 66,245	\$ 21,157	\$ 87,402
2014		32,535	19,607	52,142
2015		32,005	18,525	50,530
2016		29,780	17,445	47,225
2017		27,025	16,431	43,456
2018-2022		119,145	68,284	187,429
2023-2027		74,995	48,124	123,119
2028-2032		98,395	30,274	128,669
2033-2037		73,020	11,762	84,782
2038-2041		25,930	1,836	27,766
		<u>\$ 579,075</u>	<u>\$ 253,445</u>	<u>\$ 832,520</u>

(1) Includes the anticipated redemption of Housing Finance Bonds in the amount of \$31,265,000 and General New Issue Bond Program Bonds in the amount of \$1,200,000

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 Bond Program established liabilities for excess rebateable investment earnings in the amount of \$102,000 as of June 30, 2011, however there were no excess rebateable investment earnings as of June 30, 2012. 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 \$1,270,000 and \$858,000 established as a liability at June 30, 2012 and 2011, 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 will be secured by investments of the Bond Insurance Account as funds are advanced and it is a general obligation of the Fund. At June 30, 2012, no advances had been drawn on this line of credit, and accordingly, no balance is outstanding.

NOTE E - 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, 2012, 47.67% of the Fund's single family Housing Finance Bond Program loans were either VA, USDA Rural Development, or FHA guaranteed. Another 27.88% of these loans carry private mortgage insurance. Substantially all multifamily mortgages are federally insured or guaranteed and/or are subject to HUD Section 8 rental assistance subsidies.

The Fund is insured against fire for owned assets, liability, and employee negligence through private insurance. Furthermore, key staff members of the Fund are bonded against theft in the aggregate amount of \$4,000,000. 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 excess liability coverage of \$10,000,000 aggregate 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.

NOTE F - 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. Beginning July 1, 2012 the required contributor's percentage will decrease from 14.5% to 14.0% and 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 for employees hired on or before February 6, 2012. Beginning February 7, 2012, new hires are required to pay the employee's contribution of 4.5%. The Fund's cost of the Plan approximated \$1,086,000, \$953,000, and \$817,000 for the fiscal years ended June 30, 2012, 2011, and 2010, respectively. The PERS issues an annual report, which can be obtained by contacting the West Virginia Consolidated Public Retirement Board at 4101 MacCorkle Avenue S.E., Charleston, WV 25304-1636.

NOTE G – COMPENSATED ABSENCES AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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 Fund has recorded a liability for accrued vacation for all employees in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. The liability for annual leave at June 30, 2012 and June 30, 2011 is \$497,000 and \$540,000, 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 in Note H.

NOTE H - POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. The Fund provides certain health care insurance benefits for retired employees. The Fund established the Welfare Benefit Plan (the Plan), an irrevocable trust, for the future costs of these benefits. The assets of the Plan are with an external trustee and, accordingly, no assets or liabilities are reflected in the Fund's financial statements. The Plan is a single-employer defined other postemployment benefit plan administered by the Fund. Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the Fund. Management of the Fund has the authority to establish and amend benefit provisions to the Plan. The financial statements and required supplementary information for the Plan are included in this note as supplementary information to the Fund's financial statements.

WEST VIRGINIA HOUSING DEVELOPMENT FUND		
POSTEMPLOYMENT HEALTHCARE PLAN		
STATEMENT OF PLAN NET ASSETS		
(Dollars in Thousands)		
	June 30,	
	2012	2011
ASSETS		
Restricted cash and cash equivalents	\$ 434	\$ 220
Restricted accrued interest on investments	15	14
Accounts Receivable	54	54
Total assets	<u>503</u>	<u>288</u>
Restricted investments:		
U.S. Government Securities	3,084	2,130
Federal Agency Securities	-	1,031
Total Investments	<u>3,084</u>	<u>3,161</u>
Total assets	<u>3,587</u>	<u>3,449</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other liabilities	-	-
Total current liabilities	<u>-</u>	<u>-</u>
TOTAL NET ASSETS HELD IN TRUST	<u>\$ 3,587</u>	<u>\$ 3,449</u>
STATEMENT OF CHANGES IN PLAN NET ASSETS		
ADDITIONS		
Contributions - Employer	\$ 54	\$ 54
Investment Income	96	74
	<u>150</u>	<u>128</u>
DEDUCTIONS		
Benefits	-	-
Administrative Expense	12	11
	<u>12</u>	<u>11</u>
CHANGES IN NET PLAN ASSETS	138	117
NET ASSETS HELD IN TRUST:		
BEGINNING OF YEAR	<u>3,449</u>	<u>3,332</u>
END OF YEAR	<u>\$ 3,587</u>	<u>\$ 3,449</u>

Funding Policy. The contribution requirements of plan members and the Fund are established and may be amended by the Fund’s management. In lieu of cash payment at retirement, an employee can elect to use accumulated annual and accumulated sick leave toward their postemployment health care insurance premium. 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. 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. Accordingly, the maximum period for which a retiree may be entitled to such benefits would be twelve years. The Fund’s policy is to fund the cost of medical benefits in amounts determined at the discretion of management.

Annual OPEB Cost and Net OPEB Obligation. The Fund’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” (OPEB). The ARC represents a level of funding that, if paid on an ongoing basis it is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. As of June 30, 2012 the Fund does not have any unfunded actuarial liabilities.

The following table shows the components of the Fund’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Fund’s net OPEB obligation to the Plan.

(Dollars in thousands)	June 30,		
	2012	2011	2010
Annual Required Contribution	\$ 54	\$ 54	\$ 50
Interest on Net OPEB Obligation	-	-	-
Annual OPEB cost (expense)	54	54	50
Contributions Receivable*	54	54	50
Increase in Net OPEB Obligation	-	-	-
Net Obligation - Beginning of Year	-	-	-
Net Obligation - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*100% was contributed by the Fund for fiscal years 2012, 2011 and 2010 in July 2012, July 2011 and July 2010, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the ARC are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

Funded Status and Funding Progress. The funded status of the Plan per actuarial valuations as of January 1, 2010 and January 1, 2007 was as follows:

As of January 1, : (Dollars in thousands)	2010	2007
Actuarial accrued liability (AAL)	\$ 2,114	\$ 2,244
Actuarial value of plan assets	3,202	2,678
Plan assets in excess of actuarial accrued liability	<u>\$ 1,088</u>	<u>\$ 434</u>
Funded ratio (actuarial value of plan assets)	151.5%	119.3%
Covered payroll (active plan members)	\$ 5,365	\$ 5,259
Excess of plan assets over AAL as a percentage of covered payroll	20.3%	8.3%

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes include the types of benefits provided at the time of the valuation and the historical pattern of sharing of benefit costs between the Fund and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010 actuarial valuation, the Entry Age Normal actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the Fund's investments calculated on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 12% initially, reduced by decrements to an ultimate rate of 5% after five years. Both rates included a 3% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period.

NOTE I – SUBSEQUENT EVENTS

On August 1, 2012 the Fund redeemed various Housing Finance Bonds and General New Issue Bond Program Bonds in advance of the scheduled maturities at a par amount of \$31,265,000 and \$1,200,000, respectively.

NOTE J - NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which will be effective for the Fund's June 30, 2013 financial statements. GASB has also issued Statement No. 65, Items Previously Reported as Assets and Liabilities, and Statement No. 68, Accounting and Financial Reporting for Pensions, which will be effective for the Fund's financial statements June 30, 2014 and June 30, 2015, respectively. The Fund has not yet determined the effect these statements will have on its financial statements; however Statement No. 68 requires an actuarial evaluation of the State's Public Employees' Retirement System to calculate its net pension liability. The Fund will be required to recognize a liability equal to its proportionate share of the net pension liability.