



# West Virginia Housing Development Fund

## **AUDITED FINANCIAL STATEMENTS**

For the years ended June 30, 2011 and 2010

Audited Financial Statements

WEST VIRGINIA HOUSING DEVELOPMENT FUND

For the Years Ended June 30, 2011 and 2010

Audited Financial Statements

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## 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, 2011 and 2010, 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, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 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.

*Gibbons & Kawash, A.C.*

August 31, 2011

**WEST VIRGINIA HOUSING DEVELOPMENT FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**INTRODUCTION**

As a public body with statewide responsibility for housing, the West Virginia Housing Development Fund (the Fund) operates a wide variety of programs to provide safe and affordable housing for residents and families in the State of West Virginia (the State). Through June 30, 2011, the Fund has provided assistance for more than 110,000 housing or housing-related units.

The permanent staff of the Fund consists of 108 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 22 bond issues totaling \$698,300,000 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.<sup>1</sup>

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, 2011, 2010 and 2009.

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<sup>1</sup> 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>2011</u>	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>			
Current assets	<b>\$ 170,706</b>	\$ 179,547	\$ 86,859
Noncurrent assets:			
Mortgage loans & Restricted mortgage loans, net of allowance for losses	<b>824,016</b>	854,166	903,608
Restricted Federal Program mortgage loans, net of allowance for losses	<b>53,901</b>	55,770	56,190
Restricted cash and cash equivalents	<b>15,069</b>	24,912	19,884
Investments & Restricted investments	<b>120,419</b>	121,306	122,289
Other assets & Restricted other assets, net of allowance for losses	<b>16,690</b>	9,121	8,045
Total assets	<b><u>1,200,801</u></b>	<u>1,244,822</u>	<u>1,196,875</u>
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Accounts payable and other liabilities	<b>18,580</b>	19,584	17,811
Accrued interest payable	<b>4,728</b>	5,340	5,872
Bonds payable	<b>142,135</b>	232,210	32,095
Noncurrent liabilities:			
Bonds & notes payable, net	<b>559,044</b>	519,182	690,570
Federal program advances	<b>54,324</b>	56,360	58,836
Total liabilities	<b><u>778,811</u></b>	<u>832,676</u>	<u>805,184</u>
Net assets - Restricted	<b>334,128</b>	324,711	304,976
Net assets - Unrestricted	<b>87,862</b>	87,435	86,715
<b>TOTAL NET ASSETS</b>	<b><u>\$ 421,990</u></b>	<b><u>\$ 412,146</u></b>	<b><u>\$ 391,691</u></b>

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 \$8,841,000 (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.

The increase of \$92,688,000 (106.7%), in Current assets from 2009 to 2010 was primarily due to the receipt of \$100,000,000 in New Issue Bond Program proceeds.

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

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.

The decrease of \$49,442,000 (5.5%) in Mortgage loans & Restricted mortgage loans, net of allowance for losses from 2009 to 2010 was primarily due to mortgage loan prepayments and repayments of \$87,188,000 and foreclosures of \$9,435,000 exceeding loan originations of \$48,245,000. Mortgage loan balances in the Bond Programs decreased approximately \$49,902,000 from 2009 to 2010.

**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 \$9,843,000 (39.5%) in Restricted cash and cash equivalents from 2010 to 2011 was due to an 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.

The increase of \$5,028,000 (25.3%) in Restricted cash and cash equivalents from 2009 to 2010 was due to an increase in the balance of funds in the Bond Insurance Account.

**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)	2011	2010	2009
Balance at beginning of fiscal year	\$ 121,306	\$ 122,289	\$ 107,774
Sales, maturities and amortization	(107,335)	(68,036)	(75,686)
Purchases	108,085	62,601	89,196
(Decrease) Increase in fair value of investments	(1,637)	4,452	1,005
Balance at end of fiscal year	<u>\$ 120,419</u>	<u>\$ 121,306</u>	<u>\$ 122,289</u>

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

The increase of \$7,569,000 (83.0%) in Other assets and Restricted other assets, net of allowance for losses from 2010 to 2011 was primarily due to an increase of \$5,472,000 in capitalized costs related to the construction of the new office building for the Fund's operations as well as an increase of \$2,079,000 in foreclosed properties.

The increase of \$1,076,000 (13.4%) in Other assets and Restricted other assets, net of allowance for losses from 2009 to 2010 was primarily due to the capitalization of costs related to the construction of the new office building for the Fund's operations as well as an increase of \$994,000 in foreclosed properties.

**Accounts payable and other liabilities**

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.

The increase of \$1,773,000 (10.0%) in Accounts payable and other liabilities from 2009 to 2010 was primarily due to the receipt of \$2,400,000 in funds held for others for the State Neighborhood Stabilization Program.

**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 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 2011 and 2010. See *Note D – Bonds & Notes payable, current and noncurrent.*

(Dollars in thousands)	2011	2010	2009
Balance at beginning of the fiscal year			
Bonds payable - current	\$ 232,210	\$ 32,095	\$ 24,835
Bonds payable - noncurrent	519,182	690,570	735,342
Debt issued:			
Housing Finance Bonds	130,870	-	30,000
New Issue Bond Program	-	100,000	-
Other Loan Programs Note payable	250	-	250
Debt paid:			
Scheduled Debt Service - Bonds & notes payable	(16,594)	(19,197)	(21,816)
Early Redemptions	(164,250)	(51,585)	(45,395)
Amortization of bond premiums	(489)	(491)	(551)
Balance at end of the fiscal year	<u>\$ 701,179</u>	<u>\$ 751,392</u>	<u>\$ 722,665</u>
Bonds payable - current	\$ 142,135	\$ 232,210	\$ 32,095
Bonds & notes payable - noncurrent	559,044	519,182	690,570
Total bonds & notes payable	<u>\$ 701,179</u>	<u>\$ 751,392</u>	<u>\$ 722,665</u>

**Federal program advances**

The decrease of \$2,036,000 (3.6%) and decrease of \$2,476,000 (4.2%) in Federal program advances from 2010 to 2011 and from 2009 to 2010, 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 \$20,455,000 (5.2%) from June 30, 2009 to June 30, 2010. From June 30, 2010 to June 30, 2011, Total Net Assets improved another \$9,844,000 (2.4%) as the net financial position of the Fund increased to \$421,990,000 at June 30, 2011.

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		
	2011	2010	2009
<b>REVENUES</b>			
Interest on loans	\$ 48,165	\$ 51,725	\$ 56,114
Pass-through grant revenue	77,026	59,840	53,236
Fee revenue	7,458	7,683	8,088
Net investment earnings (non-operating)	3,512	11,007	8,276
Other	1,299	1,458	1,519
Total Revenues	137,460	131,713	127,233
<b>EXPENSES</b>			
Pass-through grant expense	77,026	59,840	53,236
Interest and debt expense (non-operating)	29,399	32,962	36,809
Loan fees expense	4,427	4,240	5,506
Program expenses, net	7,246	4,953	4,641
Administrative expenses, net	9,518	9,263	8,849
Total Expenses	127,616	111,258	109,041
<b>CHANGES IN NET ASSEIS</b>	9,844	20,455	18,192
<b>NET ASSEIS AT BEGINNING OF YEAR</b>	412,146	391,691	373,499
<b>NET ASSEIS AT END OF YEAR</b>	\$ 421,990	\$ 412,146	\$ 391,691

**Interest on loans**

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.

The decrease in Interest on loans of \$4,389,000 (7.8%) from 2009 to 2010 was primarily due to a decrease in mortgage loan balances from the prior year.

**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 are temporary and will expire 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 \$17,186,000 (28.7%) from 2010 to 2011 was primarily due to TCAP and TCEP disbursements as well as an increase in the fees earned in the HAP program.

The increase of \$6,604,000 (12.4%) from 2009 to 2010 was due to fluctuations in the volume of activity in the HOME program.

### Fee revenue

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.

The decrease of \$405,000 (5.0%) in Fee revenue from 2009 to 2010 was primarily due to a decrease of \$335,000 in fees earned on the sale of loans to the Secondary Market, a decrease of \$410,000 in multifamily prepayment penalties and an increase of \$330,000 in service fees earned.

### Net investment earnings

Net investment earnings increased \$2,731,000 (33.0%) from 2009 to 2010 and decreased \$7,495,000 (68.1%) from 2010 to 2011 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 8.9% from 2009 to 2010 and decreased an additional 26.9% from 2010 to 2011. These fluctuations are due to lower interest rates during fiscal year 2010 and fiscal year 2011.

(Dollars in thousands)	June 30,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net investment income per operating statement	\$ 3,512	\$ 11,007	\$ 8,276
Adjustments for unrealized loss (gain) on fair value of securities	1,444	(4,226)	(835)
Interest earned on investments	<u>\$ 4,956</u>	<u>\$ 6,781</u>	<u>\$ 7,441</u>
% Decrease from prior year	(26.9%)	(8.9%)	

### Other revenues

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 recorded as Administrative expenses, net in fiscal year 2011.

The decrease of \$61,000 (4.0%) in Other revenues from 2009 to 2010 was primarily due to a \$171,000 decrease in gains on the sale of mortgage loans in the secondary market, a decrease of \$86,000 in rental income, a \$32,000 increase in gains on sale of foreclosed properties and a \$160,000 increase in revenues related to the receipt of Neighborhood Stabilization Program administrative fees.

### Interest and debt expense

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.

The \$3,847,000 (10.5%) decrease in Interest and debt expense from 2009 to 2010 was primarily due to the redemption of higher coupon bonds during 2010.

### Loan fees expense

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.

The \$1,266,000 (23.0%) decrease in Loan fees expense from 2009 to 2010 was primarily due to a decrease in loan origination fees paid to lenders due to a decrease in Housing Finance loan purchases.

**Program expenses, net**

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.

The \$312,000 (6.7%) increase in *Program expenses, net* from 2009 to 2010 was primarily due to an increase in Low Income Housing Tax Credit monitoring fees.

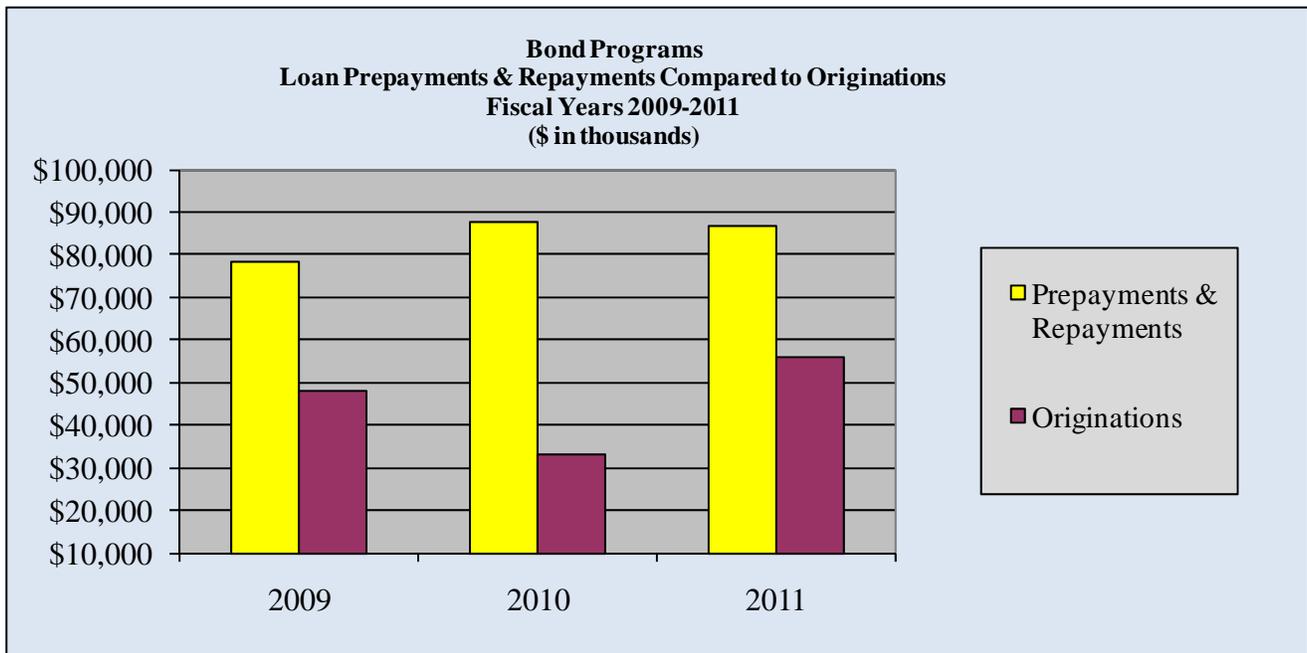
**OVERVIEW OF THE FINANCIAL STATEMENTS**

**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 2011, the Fund’s mortgage rates were no longer competitive to the conventional loan market and the Bond Programs mortgage loan balances decreased \$49,902,000 in fiscal 2010 and an additional \$30,806,000 in fiscal 2011 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 2009 through fiscal year 2011 for the Bond Programs.



Interest rates on new single family bond loans originated in fiscal year 2011 have averaged approximately 3.839%. 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, 2009	5.83%
June 30, 2010	5.76%
June 30, 2011	5.67%

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	
	2009	2010	2011	March 31, 2011	
<u>Months Past Due</u>					
One	4.25%	4.02%	4.15%	4.17%	3.00%
Two	1.44%	1.45%	1.31%	1.39%	1.21%
Three	0.58%	0.81%	0.53%	2.46%	3.58%
In foreclosure	1.34%	1.61%	1.76%	2.24%	4.52%

\*Most current data available.

**Investments**

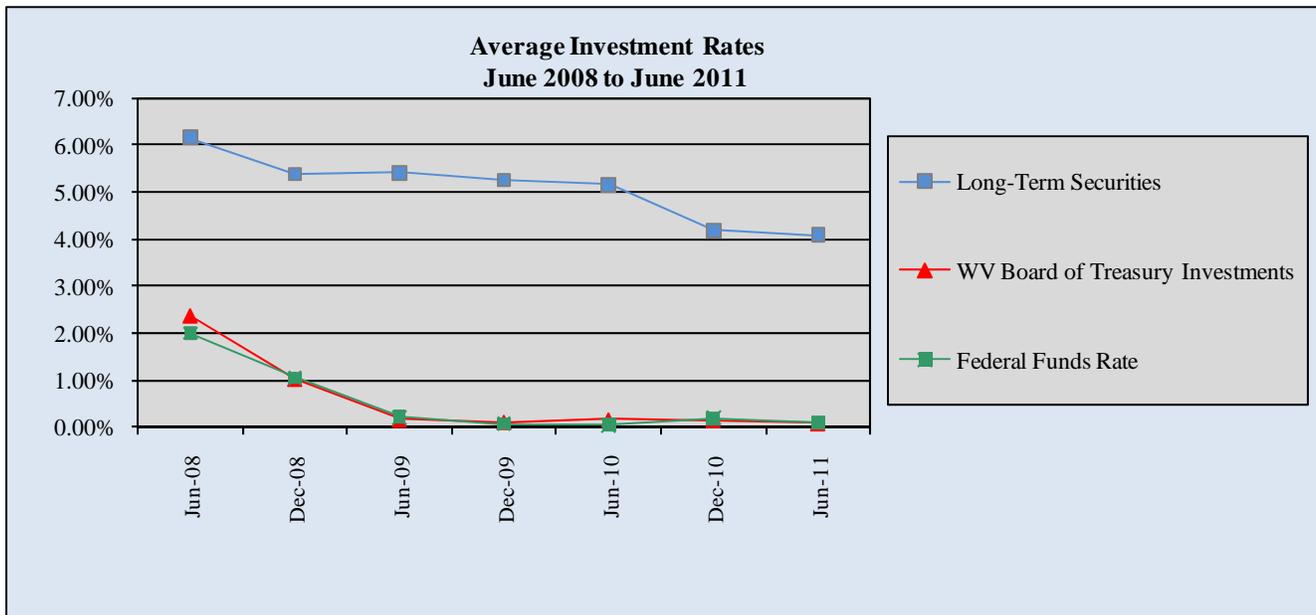
The Fund invests cash not required for immediate disbursement as permitted by the Act, the bond resolutions, and the Board approved Investment Policy. Funds related to the Bond Programs capital reserves and the Bond Insurance Account are primarily invested in long-term United States government and agency 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 the above account 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 2008, the Federal Reserve decreased the Federal funds rate seven times to 2.00% and decreased it an additional three times to a historical low of 0.00% to 0.25% in fiscal year 2009 where it remained through fiscal year 2011. 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 decreases in interest rates in fiscal year 2009 and 2010 directly impacted the Fund’s investment earnings as they decreased 8.9% from 2009 to 2010, net of unrealized gains or losses, and an additional 26.9% from 2010 to 2011, 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 2008 to June 2011:



### 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. As of June 30, 2011, there was \$2,551,000 in warehoused loans in the General Account to be purchased by the Housing Finance Program. 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, 2011, no advances had been drawn on this line of credit, and accordingly, no balance is outstanding.

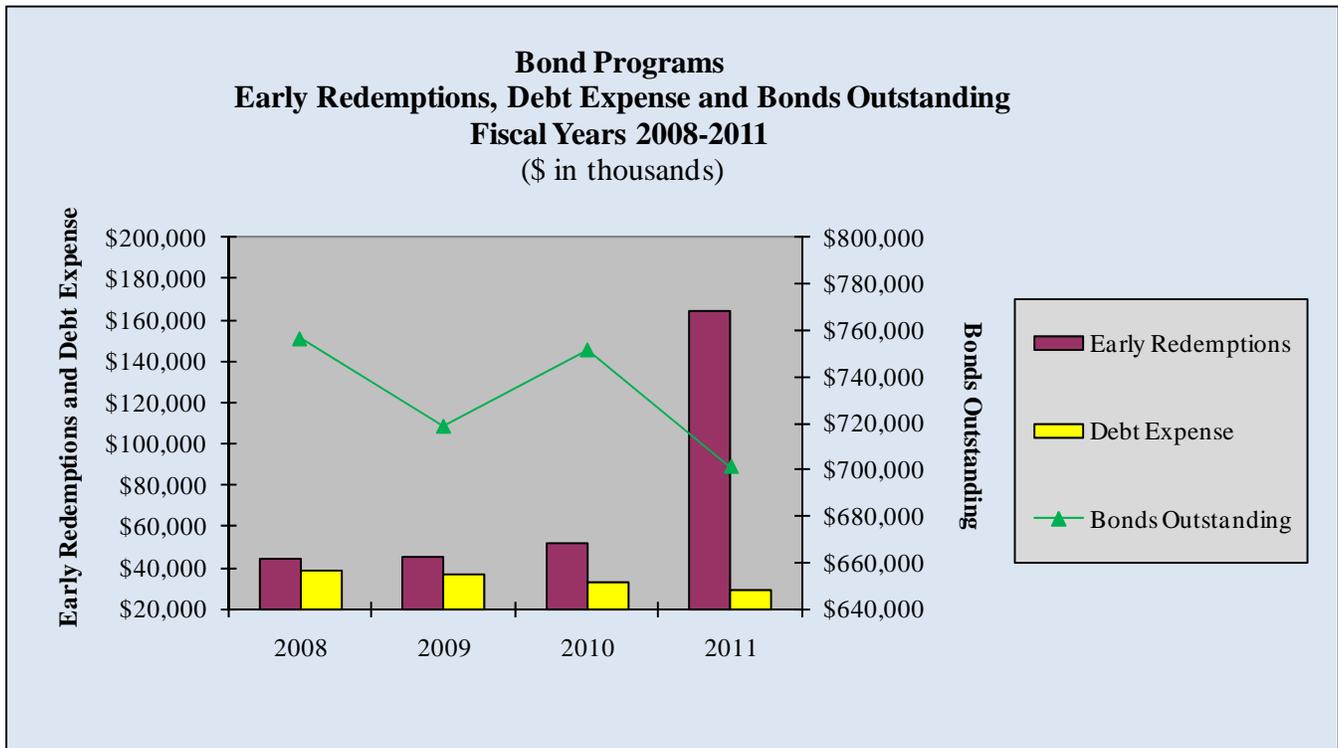
When bonds are issued from the bond volume allocation, known as “new money” bonds, certain repayments and prepayments of mortgage loans made from these proceeds may be “recycled” into additional mortgage loans for ten years. The Fund uses recycling to supplement its bond issues by using prepayments for 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 2011 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 2009, 2010 and 2011, the Fund redeemed \$45,395,000, \$51,585,000, and \$164,250,000 in bonds, respectively. The increase in early redemptions for 2010 and 2011 as compared to 2009 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 redemptions included the refunding of bonds in the amount of \$93,870,000.

Debt expense was \$36,809,000, \$32,962,000 and \$29,399,000 in fiscal years 2009, 2010 and 2011, respectively. Debt expense decreased in 2010 as compared to 2009 and in 2011 as compared to 2010 due to lower bond balances as a result of redemptions exceeding new debt issuances.

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. Bonds under this program are to be issued in two parts. 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. The second part of the bond transaction is to convert the bonds into long-term single family housing bonds, the proceeds of which will be used to purchase single family mortgage loans. If the bonds are not converted to long-term bonds by December 31, 2011, the convertible option bonds must be redeemed using the proceeds on deposit with the Trustee. Due to low demand for the Fund's mortgage loans in the current market environment, none of bonds have been converted to long-term bonds as of June 30, 2011 and no 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 \$1.34 billion. Servicing fee income in the amount of \$3,662,000 represents 6.43% of the Fund's operating revenues, net of pass through grant revenue, for the fiscal year ended June 30, 2011.

**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 5710 MacCorkle Ave. SE, Charleston, WV 25304, or may be found on our website at [www.wvhdf.com](http://www.wvhdf.com).

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

	<b>June 30,</b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents-- (Notes A and C)	\$ 17,199	\$ 25,902
Accrued interest on loans	246	260
Accrued interest on investments	29	58
Mortgage loans held for sale-- (Note A)	384	1,631
Restricted cash and cash equivalents-- (Notes A and C)	148,375	146,884
Restricted accrued interest on loans	3,446	3,591
Restricted accrued interest on investments	1,027	1,221
Total current assets	<u>170,706</u>	<u>179,547</u>
Noncurrent assets:		
Mortgage loans, net of allowance for losses-- (Note A)	48,758	53,852
Other assets, net of allowance for losses-- (Note A)	8,639	3,103
Investments-- (Notes A and C)	14,600	3,500
Restricted cash and cash equivalents-- (Notes A and C)	15,069	24,912
Restricted investments-- (Notes A and C)	105,819	117,806
Restricted mortgage loans, net of allowance for losses-- (Note A)	829,159	856,084
Restricted other assets, net of allowance for losses-- (Note A)	8,051	6,018
Total noncurrent assets	<u>1,030,095</u>	<u>1,065,275</u>
Total assets	<u>1,200,801</u>	<u>1,244,822</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and other liabilities-- (Note A)	18,580	19,584
Accrued interest payable	4,728	5,340
Bonds payable-- (Note D)	142,135	232,210
Total current liabilities	<u>165,443</u>	<u>257,134</u>
Noncurrent liabilities:		
Federal program advances-- (Note A)	54,324	56,360
Bonds & notes payable-- (Note D)	559,044	519,182
Total noncurrent liabilities	<u>613,368</u>	<u>575,542</u>
Total liabilities	<u>778,811</u>	<u>832,676</u>
Net assets:		
Restricted for debt service	260,967	252,737
Restricted by state statute	73,161	71,974
Invested in capital assets, net of related debt	7,506	1,810
Unrestricted	80,356	85,625
<b>TOTAL NET ASSETS</b>	<u>\$ 421,990</u>	<u>\$ 412,146</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)**

	<b>Year Ended June 30,</b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>OPERATING REVENUES</b>		
Interest on loans	\$ 48,165	\$ 51,725
Pass-through grant revenue-- (Note A)	77,026	59,840
Fee revenue-- (Note A)	7,458	7,683
Other-- (Note A)	1,299	1,458
	<u>133,948</u>	<u>120,706</u>
<b>OPERATING EXPENSES</b>		
Pass-through grant expense-- (Note A)	77,026	59,840
Loan fees expense-- (Note A)	4,427	4,240
Program expenses, net-- (Note A)	7,246	4,953
Administrative expenses, net-- (Note A)	9,518	9,263
	<u>98,217</u>	<u>78,296</u>
<b>OPERATING INCOME</b>	35,731	42,410
<b>NON-OPERATING - FINANCING AND INVESTING REVENUES (EXPENSES)</b>		
Net investment earnings	3,512	11,007
Interest and debt expense	(29,399)	(32,962)
	<u>(25,887)</u>	<u>(21,955)</u>
<b>CHANGES IN NET ASSETS</b>	9,844	20,455
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>412,146</u>	<u>391,691</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 421,990</u>	<u>\$ 412,146</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)

	<b>Year Ended</b>	
	<b>June 30,</b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from lending activities	\$ 141,659	\$ 148,052
Receipts from other operating activities	8,679	9,021
(Disbursements) receipts from escrows or advances	(1,126)	1,983
Receipts for federal lending activities	20,617	3,949
Receipts for federal activities	55,514	53,129
Disbursements for federal activities	(55,440)	(53,028)
Purchase mortgage loans	(88,324)	(55,072)
Purchase mortgage loans held for sale	(61,171)	(65,409)
Sales of mortgage loans	62,418	69,829
Payments to employees for salaries and benefits	(7,223)	(6,944)
Payments to vendors	(11,470)	(10,051)
Net cash provided by operating activities	<u>64,133</u>	<u>95,459</u>
<b>CASH FLOWS USED IN NONCAPITAL FINANCING ACTIVITIES</b>		
Net proceeds from bonds and notes	131,120	100,000
Retirement of bonds and notes	(180,844)	(70,782)
Interest paid	(30,479)	(33,963)
Net cash used in noncapital financing activities	<u>(80,203)</u>	<u>(4,745)</u>
<b>CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Disbursements for construction of office building	(5,472)	-
Net cash used in capital and related financing activities	<u>(5,472)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturities of investments	107,390	67,882
Purchase of investments	(108,085)	(62,601)
Net investment earnings	5,182	6,908
Net cash provided by investing activities	<u>4,487</u>	<u>12,189</u>
Net (decrease) increase in cash and cash equivalents	(17,055)	102,903
Cash and cash equivalents at beginning of year	197,698	94,795
Cash and cash equivalents at end of year	<u>\$ 180,643</u>	<u>\$ 197,698</u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 17,199	\$ 25,902
Restricted cash and cash equivalents - current	148,375	146,884
Restricted cash and cash equivalents - noncurrent	15,069	24,912
	<u>\$ 180,643</u>	<u>\$ 197,698</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)

	<b>Year Ended</b>	
	<b>June 30,</b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 35,731	\$ 42,410
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for loan losses	(1,450)	(1,796)
Change in assets and liabilities:		
Accrued interest on loans	10	335
Mortgage loans held for sale	4,104	4,544
Other assets	(107)	(395)
Restricted accrued interest on loans	149	213
Restricted other assets	(1,401)	(73)
Mortgage loans, net	11,985	(1,755)
Restricted mortgage loans, net	18,272	52,738
Accounts payable	(1,124)	1,714
Federal program advances	(2,036)	(2,476)
Net cash provided by operating activities	<u>\$ 64,133</u>	<u>\$ 95,459</u>
 <b>Noncash investing and financing activities:</b>		
(Decrease) increase in fair value of investments	\$ (1,444)	\$ 4,226
Net amortization of premiums/discounts on investments	56	153

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, 2011**

**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, 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 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 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.

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, 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.

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, 2011, the Fund had commitments to originate loans of \$5,475,000, net of estimated fallout, and commitments to sell loans of \$1,705,000.

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 \$14,698,000 at June 30, 2011 and \$16,060,000 at June 30, 2010. 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, 2011			June 30, 2010		
	Loan Balance	Allowance	Net	Loan Balance	Allowance	Net
Unrestricted Mortgage Loans:						
General Account	\$ 6,950	\$ (2,685)	\$ 4,265	\$ 10,288	\$ (1,421)	\$ 8,867
Other Loan Programs	56,887	(12,394)	44,493	56,686	(11,701)	44,985
Total	<u>\$ 63,837</u>	<u>\$ (15,079)</u>	<u>\$ 48,758</u>	<u>\$ 66,974</u>	<u>\$ (13,122)</u>	<u>\$ 53,852</u>

Other assets include accounts receivables, foreclosed properties and 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 on the building of \$880,000. The building is fully depreciated. In fiscal year 2009, the Fund purchased land for \$1,810,000 in anticipation of constructing a new office building on the site. Construction began during fiscal year 2011. As of June 30, 2011 capitalized costs related to the construction of the new building were \$5,696,000. These amounts are also included in Other assets. The Fund expects construction to be completed and to move to their new office in August 2011. Capital assets are not separately presented in the financial statements due to immateriality.

(Dollars in thousands)	June 30, 2011			June 30, 2010		
	Balance	Allowance	Net	Balance	Allowance	Net
Other Assets:						
Accounts receivable	\$ 754	\$ (3)	\$ 751	\$ 576	\$ (5)	\$ 571
Land and office building	7,863	(55)	7,808	2,551	(20)	2,531
Foreclosed property	198	(118)	80	49	(48)	1
Total	<u>\$ 8,815</u>	<u>\$ (176)</u>	<u>\$ 8,639</u>	<u>\$ 3,176</u>	<u>\$ (73)</u>	<u>\$ 3,103</u>

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. 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)	June 30, 2011			June 30, 2010		
	Balance	Allowance	Net	Balance	Allowance	Net
Restricted Mortgage Loans:						
General Account	\$ 626	\$ (622)	\$ 4	\$ 1,605	\$ (1,596)	\$ 9
Land Development	5,454	(1,495)	3,959	5,161	(1,146)	4,015
Bond Insurance Account	19,499	(755)	18,744	13,536	(602)	12,934
Housing Finance Bond Program	761,395	(8,844)	752,551	792,357	(9,001)	783,356
Federal Programs	98,820	(44,919)	53,901	82,180	(26,410)	55,770
Total	<u>\$ 885,794</u>	<u>\$ (56,635)</u>	<u>\$ 829,159</u>	<u>\$ 894,839</u>	<u>\$ (38,755)</u>	<u>\$ 856,084</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 these 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, these HOME, TCAP and TCEP projects are recorded as restricted mortgage loans with 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, 2011			June 30, 2010		
	Balance	Allowance	Net	Balance	Allowance	Net
Restricted other assets:						
Accounts receivable	\$ 302	\$ (166)	\$ 136	\$ 220	\$ (166)	\$ 54
Land	2,601	(1,990)	611	3,040	(2,380)	660
Foreclosed property	9,694	(2,390)	7,304	6,937	(1,633)	5,304
Total	<u>\$ 12,597</u>	<u>\$ (4,546)</u>	<u>\$ 8,051</u>	<u>\$ 10,197</u>	<u>\$ (4,179)</u>	<u>\$ 6,018</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 \$1,347,000,000 and \$1,364,000,000 at June 30, 2011 and 2010, respectively. Of this total, the portfolio serviced by the Fund on behalf of others approximated \$391,992,000 and \$394,299,000 at June 30, 2011 and 2010, 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 building 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 2010 financial statements have been reclassified to conform to the 2011 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 \$6,501,000 from Other Loan Programs for various loans / projects at June 30, 2011. 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 2012 estimated administrative budget of \$11,700,000 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 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, 2011			June 30, 2010	
	Weighted Avg Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Repurchase agreements	-	\$ -	\$ -	\$ 5,969	\$ 5,969
Fannie Mae MBS pools	19.62 years	5,058	5,532	5,892	6,391
Federal agency securities	12.89 years	42,270	52,088	75,590	86,842
U.S. Treasury securities	10.93 years	6,321	8,405	6,311	8,573
West Virginia Parkways Authority VRDO	7.80 years	1,300	1,300	1,400	1,400
Mortgages held for investment purposes	22.03 years	22,749	22,749	17,205	17,205
Demand Deposits, Money Market Funds	1 day	48,430	48,430	82,863	82,863
Collateralized CDs	254 days	23,773	23,773	3,500	3,500
FDIC Insured CDs	144 days	47,326	47,326	16,000	16,000
WVBOTI deposits	1 day	14,012	14,012	7,410	7,410
US Treasury Escrow, Money Market Funds	31 days	100,196	100,196	100,056	100,056
Total investments, including cash equivalents		<u>\$ 311,435</u>	<u>\$ 323,811</u>	<u>\$ 322,196</u>	<u>\$ 336,209</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 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.

	<b>Permitted Maturity Limit</b>	<b>Average Maturity as of June 30, 2011</b>
Reserve Funds	30 Years	11 years
Bond Insurance Funds	15 Years	10 years
Other Funds	4 years	1 month
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, 2011, the Fund’s investments in the WVBOTI are rated AAA. The following investments were rated AAA as of June 30, 2011. 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. 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 AAA. Money Market Funds are invested in the Federated Government Obligations Fund and are rated AAA. 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.

<b>As of June 30, 2011</b>			
(Dollars in thousands)			
	<b>Maximum of Portfolio</b>	<b>Invested Funds</b>	<b>% of Total Investment</b>
Direct Federal Obligations	100%	\$ 6,321	3%
Federal Agency Obligations	90%	47,328	24%
Federally Guaranteed Obligations	100%	-	0%
Demand Deposits, Time Deposits	30%	23,801	12%
Collateralized CDs	\$35,000	23,773	12%
CDARS FDIC Insured CDs	\$50,000	47,326	24%
West Virginia Obligations	15%	1,300	1%
Mortgages Held for Investment Purposes	30%	22,749	12%
Money Market Funds	25%	13,606	7%
WVBOTI deposits	\$40,000	10,337	5%
<b>TOTAL</b>		<b>\$ 196,541</b>	<b>100%</b>
US Treasury Escrow Money Market/Mutual Funds*	N/A	100,196	
Funds Held for Others *	N/A	14,698	
<b>TOTAL INVESTED FUNDS</b>		<b>\$ 311,435</b>	

\* Investments pursuant to U.S. Treasury program requirements and 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 \$48,430,000 and \$82,863,000 as of June 30, 2011 and 2010, respectively. Bank balances approximated \$49,277,000 and \$83,375,000 as of June 30, 2011 and 2010, respectively, of which approximately \$10,835,000 and \$24,330,000 was covered by federal depository insurance as of June 30, 2011 and 2010, respectively, and \$26,156,000 and \$30,262,000 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, 2011 and 2010, respectively. Also included in the bank balances above are trust account money market fund balances of \$12,286,000 and \$28,783,000 as of June 30, 2011 and 2010, 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. 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:

(Dollars in thousands)	June 30,	
	2011	2010
Cash and cash equivalents	\$ 17,199	\$ 25,902
Current restricted cash and cash equivalents	148,375	146,884
Noncurrent restricted cash and cash equivalents	15,069	24,912
Restricted investments	105,819	117,806
Investments	14,600	3,500
Plus mortgages held for investment purposes	22,749	17,205
Total Investments and cash equivalents	<u>\$ 323,811</u>	<u>\$ 336,209</u>
Less unrealized gains	12,376	14,013
Total Invested Funds	<u>\$ 311,435</u>	<u>\$ 322,196</u>

In accordance with GASB 31 at June 30, 2011, the Fund has an unrealized gain on investments of \$12,376,000. This represents a \$1,637,000 decrease from the June 30, 2010 unrealized gain on investments. A portion of this unrealized gain, \$858,000 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, 2011 and to properly reflect the rebate liability, a \$1,444,000 decrease was recorded in *Net investment earnings* in the Statements of Revenues, Expenses, and Changes in Net Assets for year ended June 30, 2011.

**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 79% 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, 2011 and 2010 was \$117,453,000 and \$104,745,000, respectively. In addition, 2011 included the refunding of bonds in the amount of \$93,870,000. Total pledged revenues in 2011 and 2010 were \$133,997,000 and \$134,279,000, respectively.

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.

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. Bonds under this program are to be issued in two parts. 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 calendar 2011, the second part of the bond transaction is to convert the bonds into long-term single family housing bonds the proceeds of which will be used to purchase single family mortgage loans. If the bonds are not converted to long-term bonds by December 31, 2011, the convertible option bonds must be redeemed using the proceeds on deposit with the Trustee. Due to low demand for the Fund's mortgage loans in the current market environment, none of bonds have been converted to long-term bonds as of June 30, 2011 and no mortgages have been made under this program.

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, 2011, *Bonds & notes payable - noncurrent* include a \$662,000 note payable due to DEP related to this program under Other Loan Programs.

The following charts summarize bond and note activity from 2010 to 2011 and 2009 to 2010, respectively.

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

(Dollars in thousands)							
	Outstanding June 30, 2009	Debt Issued	Debt Paid	Early Redemptions	Amortization of Premium	Reclassification from noncurrent to current	Outstanding June 30, 2010
Bonds payable - current	\$ 32,095	\$ 100,000	\$ (19,170)	\$ (11,785)	\$ -	\$ 131,070	\$ 232,210
Bonds & notes payable - noncurrent	690,570	-	(28)	(39,800)	(490)	(131,070)	519,182
Total	<u>\$ 722,665</u>	<u>\$ 100,000</u>	<u>\$ (19,198)</u>	<u>\$ (51,585)</u>	<u>\$ (490)</u>	<u>\$ -</u>	<u>\$ 751,392</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 New Issue Bond Program:

	<b>Original Amount Authorized</b>	<b>Outstanding at June 30,</b>	
		<b>2011</b>	<b>2010</b>
(Dollars in thousands)			
<b><u>OTHER LOAN PROGRAMS</u></b>			
Notes Payable (0.00%) <sup>(1)</sup>	\$ 750	\$ 662	\$ 461
<b><u>HOUSING FINANCE BOND PROGRAM</u></b>			
1997 Series C (5.75%), due 2017-2026	46,040	36,770	36,770
1998 Series A & B	86,855	-	39,335
1998 Series F (5.70%), due 2011-2013	2,235	520	710
1999 Series A & B	50,000	-	15,100
2000 Series C	35,000	-	34,760
2001 Series A & B	65,000	-	13,090
2001 Series C (5.20%), due 2012-2032	50,000	50,000	50,000
2001 Series D (5.25%), due 2022-2025	79,665	18,740	29,900
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 2011-2013	16,800	3,410	5,000
2004 Series A (4.40%), due 2011-2033	30,000	20,385	22,200
2004 Series B (4.90%), due 2011-2032	20,000	12,685	13,985
2004 Series C (4.35%), due 2011-2034	35,000	25,785	28,140
2005 Series A (4.375%), due 2011-2034	30,000	21,495	24,100
2005 Series B (4.40%), due 2011-2032	60,110	34,410	40,735
2005 Series C (4.50%), due 2011-2034	30,000	21,860	23,880
2006 Series B (4.70%), due 2011-2040	30,000	28,175	28,610
2006 Series C (5.00%), due 2011-2039	40,000	28,150	31,810
2006 Series D (3.90% to 5.75%), due 2011-2036	35,000	25,880	28,895
2007 Series A (3.95% to 5.50%), due 2011-2037	60,000	45,320	50,780
2007 Series B (4.35% to 6.00%), due 2011-2037	40,000	20,970	34,845
2007 Series C (4.00% to 5.75%), due 2011-2037	35,000	18,665	30,300
2008 Series A (4.10% to 5.05%), due 2011-2018	20,000	8,610	12,780
2008 Series B (variable rate adusted weekly) due 2030-2038	10,000	10,000	10,000
2010 Series A,B,C (1.30% to 4.75%), due 2011-2040	130,870	123,970	-
<b><u>NEW ISSUE BOND PROGRAM</u></b>			
2009 Series A (variable rate adjusted monthly) due 12/31/2011	100,000	100,000	100,000
Total bonds payable, excluding unamortized premium		698,300	748,225
Unamortized bond premium, net		2,217	2,706
Total notes payable		662	461
Total bonds & notes payable, net of unamortized premium		<u>\$ 701,179</u>	<u>\$ 751,392</u>
<sup>(1)</sup> Payments are due to the DEP as the Fund receives payments from OSLP loan recipients.			

Total bonds payable does not include \$10,315,000 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, 2011 and thereafter to maturity.

<b>Bonds</b>				
<b>Maturing During</b>				
<b>Year Ending June 30:</b>	<b>Principal</b>		<b>Interest</b>	<b>Total</b>
		(Dollars in thousands)		
2012	\$ 142,135	(1)	\$ 26,711	\$ 168,846
2013	29,635		25,383	55,018
2014	27,795		24,159	51,954
2015	27,600		23,001	50,601
2016	24,970		21,852	46,822
2017-2021	115,155		93,758	208,913
2022-2026	135,915		63,985	199,900
2027-2031	104,100		34,308	138,408
2032-2036	68,700		12,594	81,294
2037-2040	22,295		1,844	24,139
	<u>\$ 698,300</u>		<u>\$ 327,595</u>	<u>\$ 1,025,895</u>

(1) - Includes the maturity of the NIBP Bonds of \$100,000,000. Also includes the anticipated redemption of Housing Finance Bonds in the amount of \$13,545,000.

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, 2011 and 2010, the Fund redeemed \$164,250,000 and \$51,585,000 of 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 Bond Program established liabilities for excess rebateable investment earnings in the amount of \$102,000 and \$177,000 at June 30, 2011 and 2010, 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 \$858,000 and \$1,051,000 established as a liability at June 30, 2011 and 2010, 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, 2011, 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, 2011, 47.30% of the Fund's single family Housing Finance Bond Program loans were either VA, USDA Rural Development, or FHA guaranteed. Another 31.11% 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. There are no mortgage loans outstanding under the New Issue Bond Program as of June 30, 2011.

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 \$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 another \$4,000,000 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.

#### **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, 2011 the required contributor's percentage will increase from 12.5% to 14.4% 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. Such costs approximated \$953,000, \$817,000, and \$771,000 for the fiscal years ended June 30, 2011, 2010, and 2009, 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, 2011 and June 30, 2010 is \$540,000 and \$531,000, 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 not audited and are included in this note as supplementary information to the Fund's financial statements.

<b>WEST VIRGINIA HOUSING DEVELOPMENT FUND</b>		
<b>POSTEMPLOYMENT HEALTHCARE PLAN</b>		
<b>STATEMENT OF PLAN NET ASSETS</b>		
<b>(Dollars in Thousands)</b>		
	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Restricted cash and cash equivalents	\$ 220	\$ 95
Restricted accrued interest on investments	14	15
Accounts Receivable	54	50
Total assets	<u>288</u>	<u>160</u>
Restricted investments:		
U.S. Government Securities	2,130	2,137
Federal Agency Securities	1,031	1,035
Total Investments	<u>3,161</u>	<u>3,172</u>
Total assets	<u>3,449</u>	<u>3,332</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and other liabilities	-	-
Total current liabilities	<u>-</u>	<u>-</u>
<b>TOTAL NET ASSETS HELD IN TRUST</b>	<u>\$ 3,449</u>	<u>\$ 3,332</u>
<b>STATEMENT OF CHANGES IN PLAN NET ASSETS</b>		
<b>ADDITIONS</b>		
Contributions - Employer	\$ 54	\$ 50
Investment Income	74	124
	<u>128</u>	<u>174</u>
<b>DEDUCTIONS</b>		
Benefits	-	-
Administrative Expense	11	11
	<u>11</u>	<u>11</u>
<b>CHANGES IN NET PLAN ASSETS</b>	117	163
<b>NET ASSETS HELD IN TRUST:</b>		
<b>BEGINNING OF YEAR</b>	<u>3,332</u>	<u>3,169</u>
<b>END OF YEAR</b>	<u>\$ 3,449</u>	<u>\$ 3,332</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. Accordingly, the maximum period for which a retiree may be entitled to such benefits would be twelve years. 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. 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, 2011 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,	
	2011	2010
Annual Required Contribution	\$ 54	\$ 50
Interest on Net OPEB Obligation	-	-
Annual OPEB cost (expense)	54	50
Contributions Receivable*	54	50
Increase in Net OPEB Obligation	-	-
Net Obligation - Beginning of Year	-	-
Net Obligation - End of Year	<u>\$ -</u>	<u>\$ -</u>

\*100% was contributed by the Fund for fiscal years 2011 and 2010 in 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 July 1, 2011 the Fund redeemed various Housing Finance Bonds in advance of the scheduled maturities at a par amount of \$10,360,000.

On August 5, 2011, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the United States of America to AA+ from AAA.

On August 8, 2011, Standard & Poor's Ratings Services downgraded the credit rating on Governmental Agency debt from AAA to AA+, such as Freddie Mac, Fannie Mae, and FHLB.

On September 1, 2011 the Fund will redeem various Housing Finance Bonds in advance of the scheduled maturities at a par amount of \$3,185,000.