West Virginia Housing Development Fund

AUDITED FINANCIAL STATEMENTS

For the years ended June 30, 2013 and 2012

Audited Financial Statements

WEST VIRGINIA HOUSING DEVELOPMENT FUND

For the Years Ended June 30, 2013 and 2012

Audited Financial Statements

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia Housing Development Fund (the Fund), a component unit of the State of West Virginia, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2013 and 2012, and the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Gibbons & Kawash, A.C.

Charleston, West Virginia
August 28, 2013

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, 2013, the Fund has provided assistance for more than 115,000 housing or housing-related units.

The permanent staff of the Fund consists of 110 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 19 bond issues totaling $453,715,000 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. The restricted net position of the Fund includes the net position 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 Position and the Statements of Revenues, Expenses, and Changes in Fund Net Position as of and for the fiscal years ended June 30, 2013, 2012 and 2011.

[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 Position, the Statements of Revenues, Expenses, and Changes in Fund Net Position, 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 Position 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 position 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 Fund Net Position 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 Position at June 30:

(Dollars in thousands)	**2013**	**2012**	**2011**
ASSETS			
Current assets	**$ 80,024**	$ 110,386	$ 171,460
Noncurrent assets:			
Mortgage loans & Restricted mortgage loans, net of allowance for losses	**697,427**	763,345	824,016
Restricted Federal Program mortgage loans, net of allowance for losses	**50,284**	53,339	53,901
Restricted cash and cash equivalents	**31,123**	28,758	15,069
Investments & Restricted investments	**102,842**	124,142	120,419
Capital assets, net of depreciation	**10,070**	10,016	7,885
Other assets & Restricted other assets, net of allowance for losses	**6,412**	8,271	8,051
Total assets	**978,182**	1,098,257	1,200,801
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	**18,219**	18,663	18,580
Accrued interest payable	**2,717**	3,708	4,728
Bonds payable	**40,425**	66,245	142,135
Noncurrent liabilities:			
Bonds & notes payable, net	**415,273**	515,139	559,044
Other liabilities, Federal Programs	**51,243**	53,655	54,324
Total liabilities	**527,877**	657,410	778,811
NET POSITION			
Net investment in capital assets	**10,070**	10,016	7,885
Net position - Restricted	**366,995**	351,468	334,128
Net position - Unrestricted	**73,240**	79,363	79,977
TOTAL NET POSITION	**$ 450,305**	$ 440,847	$ 421,990

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 $30,362,000 (27.5%), in *Current assets* from 2012 to 2013 was primarily due to $30,110,000 used to call bonds.

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.

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

The decrease of $65,918,000 (8.6 %) in *Mortgage loans & Restricted mortgage loans, net of allowance for losses* from 2012 to 2013 was primarily due to mortgage loan prepayment and repayments of $107,080,000 and foreclosures of $6,853,000 exceeding loan originations of $49,033,000 and an increase of $942,000 in loan loss provisions. Mortgage loan balances in the Bond Programs decreased approximately $63,197,000 from 2012 to 2013.

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.

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 $2,365,000 (8.2%) in *Restricted cash and cash equivalents* from 2012 to 2013 was due to a $1,742,000 increase in the balance of funds available to purchase single family mortgage loans and a $623,000 increase due to the proceeds of long-term investment maturities 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 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.

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 Revenues, Expenses and Changes in Fund Net Position.

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

(Dollars in thousands)	**2013**	2012	2011
Balance at beginning of fiscal year	**$ 124,142**	$ 120,419	$ 121,306
Sales, maturities and amortization	**(88,191)**	(87,538)	(107,335)
Purchases	**71,739**	85,569	108,085
(Decrease) Increase in fair value of investments	**(4,848)**	5,692	(1,637)
Balance at end of fiscal year	**$ 102,842**	$ 124,142	$ 120,419

Capital assets, net of depreciation See *Note A – Capital assets, net of depreciation*

The increase of $54,000 (.5 %) from 2012 to 2013 was due to improvements of $452,000, net of depreciation of $398,000.

The increase of $2,131,000 (27.0%) from 2011 to 2012 was due to the construction of the Fund's new office building.

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

The decrease of $1,859,000 (22.5%) in *Other assets and Restricted other assets, net of allowance for losses* from 2012 to 2013 was primarily due to a decrease in foreclosed properties.

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.

Accounts payable and other liabilities

The decrease of $444,000 (2.4%) in *Accounts payable and other liabilities* from 2012 to 2013 was primarily due to a decrease in tax and insurance escrows held on behalf of the Fund's various mortgagors.

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.

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 2013 and 2012. See *Note D – Bonds & Notes payable, current and noncurrent.*

(Dollars in thousands)		**2013**	2012	2011
Balance at beginning of the fiscal year				
Bonds payable - current		**$ 66,245**	$ 142,135	$ 232,210
Bonds payable - noncurrent		**515,139**	559,044	519,182
Debt issued:	Housing Finance Bonds	**21,000**	50,000	130,870
	New Issue Bond Program	**-**	118,620	-
	Other Loan Programs note payable	**250**	-	250
Debt paid:	Scheduled debt service - Bonds & notes payable	**(25,065)**	(20,651)	(16,594)
	Early redemptions and refundings	**(121,360)**	(267,250)	(164,250)
Amortization of bond premiums		**(511)**	(514)	(489)
Balance at end of the fiscal year		**$ 455,698**	$ 581,384	$ 701,179
Bonds payable - current		**$ 40,425**	$ 66,245	$ 142,135
Bonds & notes payable - noncurrent		**415,273**	515,139	559,044
Total bonds & notes payable		**$ 455,698**	$ 581,384	$ 701,179

Other liabilities, Federal Programs

The decrease of $669,000 (1.2%) and decrease of $2,412,000 (4.5%) in *Other liabilities, Federal programs* from 2011 to 2012 and from 2012 to 2013, respectively, was due to activity fluctuations in the outstanding balance of Federal Programs mortgage loans as a result of loans originated.

Total Net Position improved by $18,857,000 (4.5%) from June 30, 2011 to June 30, 2012. From June 30, 2012 to June 30, 2013, *Total Net Position* improved by $9,458,000 (2.1%) as the net position of the Fund improved to $450,305,000 at June 30, 2013.

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

(Dollars in thousands)	2013	2012	2011
REVENUES			
Interest on loans	**$ 39,219**	$ 44,285	$ 48,165
Pass-through grant revenue	**65,325**	87,565	77,026
Fee revenue	**6,473**	7,282	7,458
Net investment earnings (non-operating)	**(937)**	9,717	3,512
Other	**1,758**	1,643	1,299
Total Revenues	**111,838**	150,492	137,460
EXPENSES			
Pass-through grant expense	**65,325**	87,565	77,026
Interest and debt expense (non-operating)	**18,709**	24,205	29,399
Loan fees expense	**4,628**	4,382	4,427
Program expenses, net	**4,188**	5,277	7,246
Administrative expenses, net	**9,530**	10,206	9,518
Total Expenses	**102,380**	131,635	127,616
CHANGE IN NET POSITION	**9,458**	18,857	9,844
NET POSITION AT BEGINNING OF YEAR	**440,847**	421,990	412,146
NET POSITION AT END OF YEAR	**$ 450,305**	$ 440,847	$ 421,990

Interest on loans

The decrease in *Interest on loans* of $5,066,000 (11.4%) from 2012 to 2013 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 $3,880,000 (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.

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 was a grant program that provided funds for capital investments in Low-Income Housing Tax Credit Program properties. The TCEP was a federal grant from the Treasury that allowed the exchange of certain tax credits for cash assistance.

The decrease of $22,240,000 (25.4%) from 2012 to 2013 was primarily due to the expiration of the Tax Credit Assistance Program (TCAP) and the Tax Credit Exchange Program (TCEP).

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.

Fee revenue

The decrease of $809,000 (11.1%) in *Fee revenue* from 2012 to 2013 was primarily due to a decrease of $286,000 in Low-Income Housing Tax Credit fees, a decrease of $264,000 in fees earned in the HAP program and a decrease of $247,000 in fees related to multifamily financing fees and multifamily prepayment penalties.

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.

Net investment earnings

Net investment earnings increased $6,205,000 (176.7 %) from 2011 to 2012 and decreased $10,654,000 (109.6%) from 2012 to 2013 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 10.5% from 2011 to 2012 and decreased an additional 11.6% from 2012 to 2013. These fluctuations are due to lower interest rates during fiscal year 2012 and fiscal year 2013.

(Dollars in thousands)	June 30, 2013	2012	2011
Net investment income per operating statement	**$ (937)**	$ 9,717	$ 3,512
Adjustments for unrealized loss (gain) on fair value of securities	**4,858**	(5,279)	1,444
Interest earned on investments	**$ 3,921**	$ 4,438	$ 4,956
% Decrease from prior year	**(11.6%)**	(10.5%)	

Other revenues

The increase of $115,000 (7.0%) in *Other revenues* from 2012 to 2013 was primarily due to an increase in gains on sale of mortgage loan in the secondary market.

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.

Interest and debt expense

The $5,496,000 (22.7 %) decrease in *Interest and debt expense* from 2012 to 2013 was primarily due to $121,360,000 in bond redemptions and refundings during 2013.

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.

Loan fees expense

The $246,000 (5.6%) increase in *Loan fees expense* from 2012 to 2013 was primarily due to an increase in loan origination fees paid to lenders due to an increase in secondary market loan purchases.

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.

Program expenses, net

The $1,089,000 (20.6%) decrease in *Program expenses, net* from 2012 to 2013 was primarily due to a decrease of $1,133,000 in cost of issuance expenses net of an increase of $37,000 in provision for loan loss expenses.

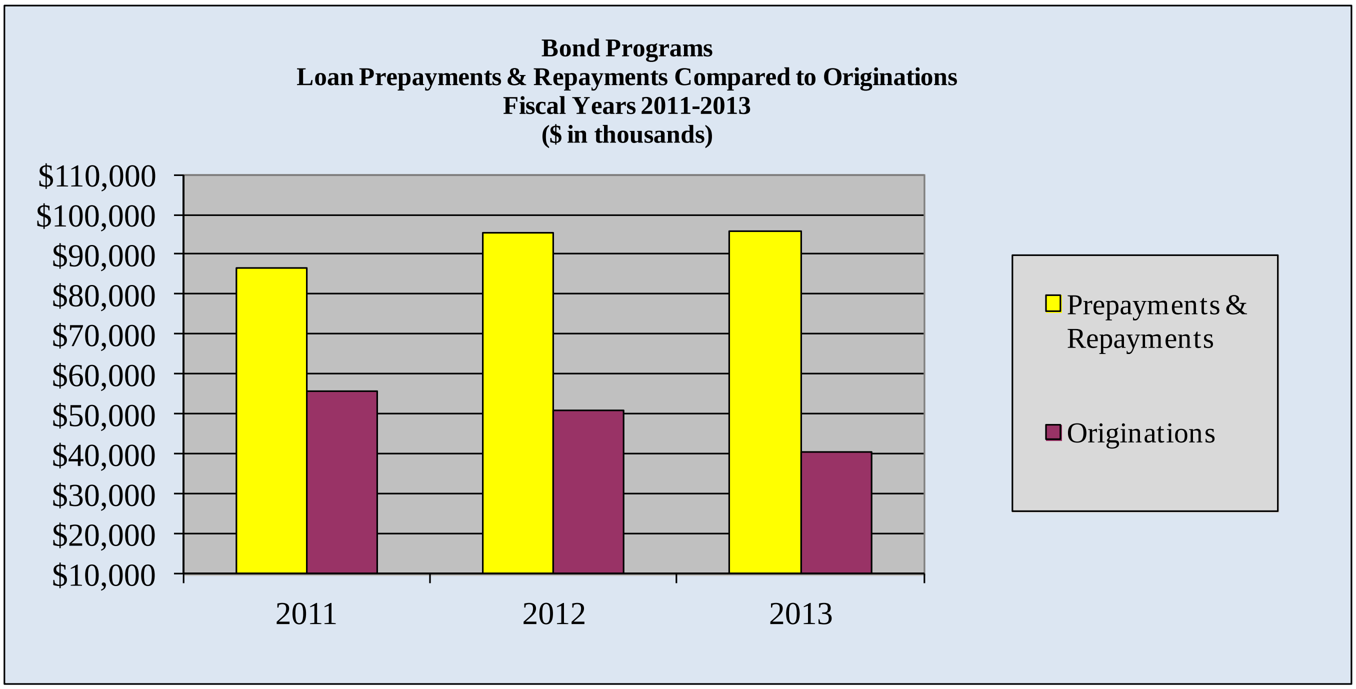
The $1,969,000 (27.2%) decrease in *Program expenses, net* from 2011 to 2012 was primarily due to a decrease of $1,407,000 in provision for loan loss expenses, a decrease of $743,000 for Special Needs disbursements, a decrease of $323,000 in land development expenses, a decrease of $131,000 in losses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

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.

Since the sharp decline in the housing industry and the dramatic decrease in mortgage interest rates during fiscal year 2009, 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. Record low interest rates have also contributed to a large number of borrowers refinancing their Bond Program loans. Consequently, the Bond Programs mortgage loan balances decreased $55,390,000 in fiscal 2012 and an additional $63,197,000 in fiscal 2013 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 2011 through fiscal year 2013 for the Bond Programs.



Interest rates on new single family bond loans originated in fiscal year 2013 have averaged approximately 3.25%. 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, 2011	5.67%
June 30, 2012	5.40%
June 30, 2013	5.16%

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 or between 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 consist 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**	
	2011	**2012**	**2013**	**March 31, 2013**	
Months Past Due					
One	4.15%	4.34%	5.16%	4.03%	2.86%
Two	1.31%	1.14%	1.12%	1.29%	1.04%
Three	0.53%	0.65%	0.53%	1.98%	2.84%
In foreclosure	1.76%	1.68%	2.31%	1.59%	3.55%

*Most current data available.

Investments

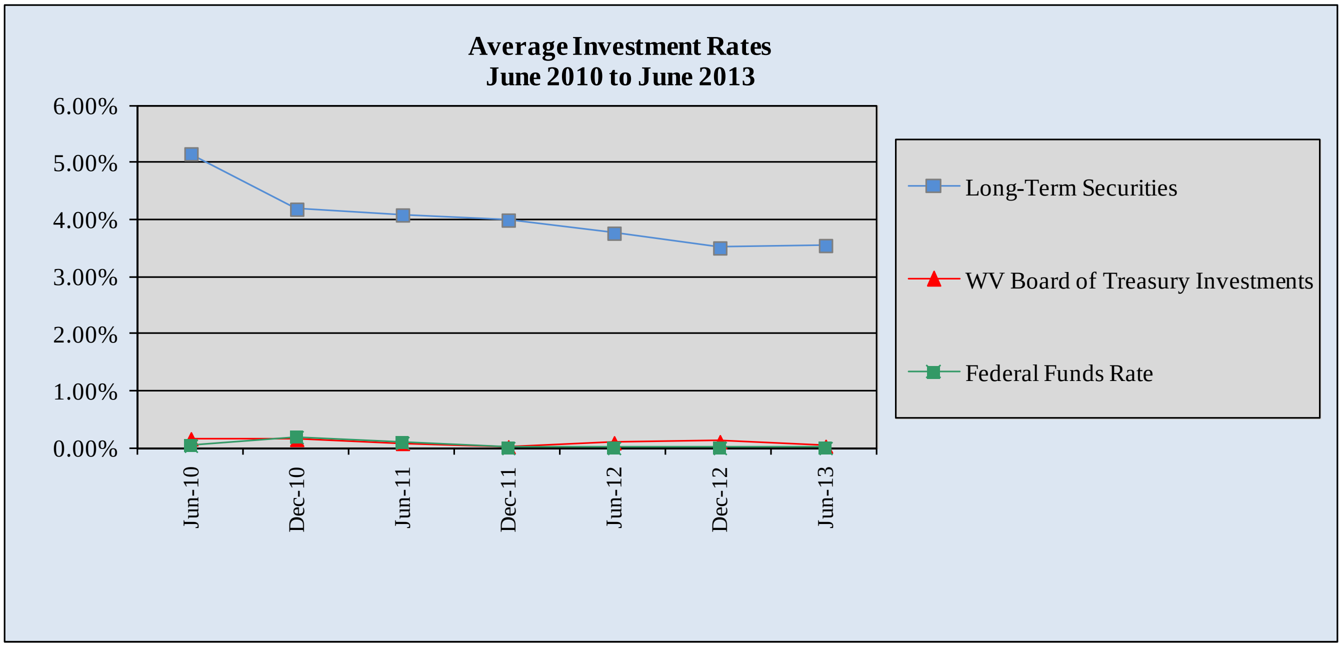
The Fund invests cash not required for immediate disbursement as permitted by the Act, the bond resolutions, and the Board approved Investment Policy. Funds related to the Bond Programs capital reserves and the Bond Insurance Account are primarily invested in long-term United States agency securities and FDIC insured certificates of deposit or collateralized certificates of deposit, 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 rates for short-term investments and the WVBOTI has been consistent with the Federal Funds rate and have remained at a historical low of 0.00% to 0.25% since 2009. Due to market conditions the Fund invests 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 11.6% from 2011 to 2012, net of unrealized gains or losses, and an additional 10.5% from 2012 to 2013, 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 2010 to June 2013:



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 and secondary market 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, 2013, no advances had been drawn on this line of credit, and accordingly, no balance is outstanding.

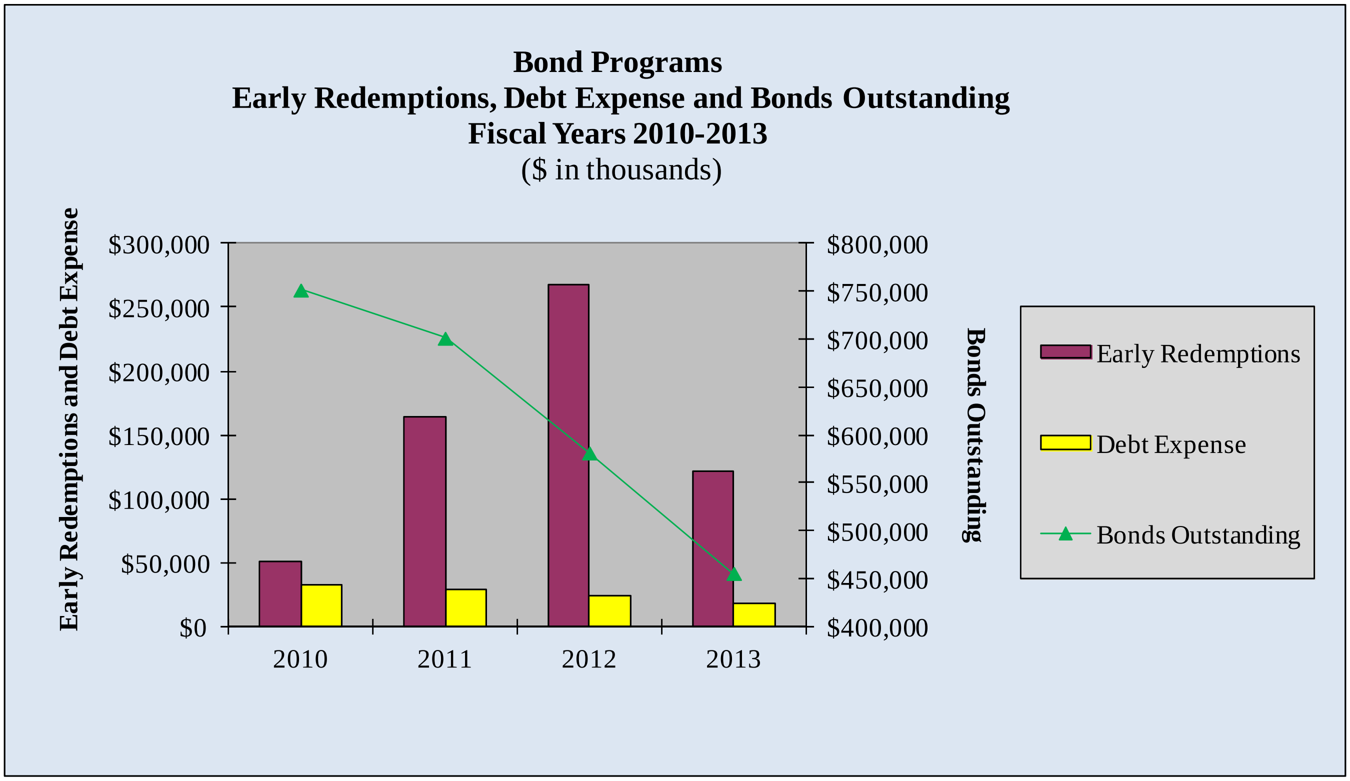
When bonds are issued from the bond volume allocation, known as "new money" bonds, certain repayments and prepayments of mortgage loans made from these proceeds may be "recycled" into additional mortgage loans for ten years. The Fund uses recycling to supplement its bond issues by using prepayments for 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 2014 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 2011, 2012 and 2013, the Fund redeemed or refunded $164,250,000, $267,250,000 and $121,360,000 in bonds, respectively. The increase in early redemptions for 2012 as compared to 2011 and 2013 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, 2012 and 2013 redemptions included the refunding of bonds in the amount of $105,510,000 and $25,000,000, respectively.

Debt expense was $29,399,000, $24,205,000 and $18,709,000 in fiscal years 2011, 2012 and 2013, respectively. Debt expense decreased in 2012 as compared to 2011 and in 2013 as compared to 2012 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, 2013, $64,889,000 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 $3,441,000 represents 7.25% of the Fund's operating revenues, net of pass through grant revenue, for the fiscal year ended June 30, 2013.

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 POSITION
(Dollars in Thousands)

	June 30, 2013	June 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents-- *(Notes A and C)*	$ 27,166	$ 22,951
Accrued interest on loans	224	262
Accrued interest on investments	8	10
Accounts receivable and other assets, net of allowance for losses-- *(Note A)*	651	629
Mortgage loans held for sale-- *(Note A)*	690	3,077
Restricted cash and cash equivalents-- *(Notes A and C)*	47,325	79,365
Restricted accrued interest on loans	2,973	3,163
Restricted accrued interest on investments	987	929
Total current assets	80,024	110,386
Noncurrent assets:		
Mortgage loans, net of allowance for losses-- *(Note A)*	43,741	47,553
Capital assets, net of depreciation-- *(Note A)*	10,070	10,016
Investments-- *(Notes A and C)*	1,513	5,540
Restricted cash and cash equivalents-- *(Notes A and C)*	31,123	28,758
Restricted investments-- *(Notes A and C)*	101,329	118,602
Restricted mortgage loans, net of allowance for losses-- *(Note A)*	703,970	769,131
Restricted other assets, net of allowance for losses-- *(Note A)*	6,412	8,271
Total noncurrent assets	898,158	987,871
Total assets	978,182	1,098,257
LIABILITIES		
Current liabilities:		
Accounts payable and other liabilities-- *(Note A)*	18,219	18,663
Accrued interest payable	2,717	3,708
Bonds payable-- *(Note D)*	40,425	66,245
Total current liabilities	61,361	88,616
Noncurrent liabilities:		
Other liabilities, Federal Programs-- *(Note A)*	51,243	53,655
Bonds & notes payable-- *(Note D)*	415,273	515,139
Total noncurrent liabilities	466,516	568,794
Total liabilites	527,877	657,410
NET POSITION		
Restricted for debt service	297,455	278,858
Restricted by state statute for bond insurance and land development	69,540	72,610
Net investment in capital assets	10,070	10,016
Unrestricted	73,240	79,363
Total net position	$ 450,305	$ 440,847

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 FUND NET POSITION
(Dollars in Thousands)

	Year Ended June 30, 2013	Year Ended June 30, 2012
OPERATING REVENUES		
Interest on loans	$ 39,219	$ 44,285
Pass-through grant revenue-- *(Note A)*	65,325	87,565
Fee revenue-- *(Note A)*	6,473	7,282
Other-- *(Note A)*	1,758	1,643
	112,775	140,775
OPERATING EXPENSES		
Pass-through grant expense-- *(Note A)*	65,325	87,565
Loan fees expense-- *(Note A)*	4,628	4,382
Program expenses, net-- *(Note A)*	4,188	5,277
Administrative expenses, net-- *(Note A)*	9,530	10,206
	83,671	107,430
OPERATING INCOME	29,104	33,345
NON-OPERATING - FINANCING AND INVESTING REVENUES (EXPENSES)		
Net investment earnings (losses)	(937)	9,717
Interest and debt expense	(18,709)	(24,205)
	(19,646)	(14,488)
CHANGE IN NET POSITION	9,458	18,857
NET POSITION AT BEGINNING OF YEAR	440,847	421,990
NET POSITION AT END OF YEAR	$ 450,305	$ 440,847

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, 2013	Year Ended June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from lending activities	$ 156,676	$ 158,611
Receipts from other operating activities	8,177	8,895
Receipts from escrows or advances	209	21
Receipts for federal lending activities	6,942	28,816
Receipts for federal activities	58,110	57,940
Disbursements for federal activities	(58,037)	(57,854)
Purchase of mortgage loans	(56,319)	(83,019)
Purchase of mortgage loans held for sale	(110,350)	(77,936)
Sales of mortgage loans	112,737	75,243
Payments to employees for salaries and benefits	(7,065)	(7,441)
Payments to vendors	(11,061)	(11,998)
Net cash provided by operating activities	100,019	91,278
CASH FLOWS USED IN NONCAPITAL FINANCING ACTIVITIES		
Net proceeds from bonds and notes	21,250	168,620
Retirement of bonds and notes	(146,425)	(287,901)
Interest paid	(20,168)	(25,694)
Net cash used in noncapital financing activities	(145,343)	(144,975)
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Disbursements for construction of office building	(452)	(2,313)
Net cash used in capital and related financing activities	(452)	(2,313)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	88,209	87,566
Purchase of investments	(71,739)	(85,569)
Net investment earnings	3,846	4,444
Net cash provided by investing activities	20,316	6,441
Net decrease in cash and cash equivalents	(25,460)	(49,569)
Cash and cash equivalents at beginning of year	131,074	180,643
Cash and cash equivalents at end of year	$ 105,614	$ 131,074
Cash and cash equivalents consist of:		
Cash and cash equivalents	$ 27,166	$ 22,951
Restricted cash and cash equivalents - current	47,325	79,365
Restricted cash and cash equivalents - noncurrent	31,123	28,758
	$ 105,614	$ 131,074

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, 2013	Year Ended June 30, 2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 29,104	$ 33,345
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for loan losses	(81)	(43)
Change in assets and liabilities:		
Accrued interest on loans	38	(12)
Mortgage loans held for sale	2,387	(2,693)
Other assets	375	219
Restricted accrued interest on loans	190	279
Restricted other assets	853	(164)
Mortgage loans, net	3,487	286
Restricted mortgage loans, net	66,574	61,022
Accounts payable	(496)	(292)
Other liabilities, Federal Programs	(2,412)	(669)
Net cash provided by operating activities	$ 100,019	$ 91,278

	2013	2012
Noncash investing and financing activities:		
(Decrease) Increase in fair value of investments	$ (4,848)	$ 6,723
Net amortization of premiums/discounts on investments	18	28

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

NOTE A – AGENCY DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

The West Virginia Housing Development Fund (the Fund) 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).

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, 2013			June 30, 2012		
	Balance	Allowance	Net	Balance	Allowance	Net
Accounts receivable and other Assets:						
Accounts receivable	$ 570	$ (1)	$ 569	$ 548	$ (1)	$ 547
Land	117	(35)	82	138	(56)	82
Foreclosed property	31	(31)	-	32	(32)	-
Total	$ 718	$ (67)	$ 651	$ 718	$ (89)	$ 629

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, 2013, the Fund had commitments to purchase loans of $6,283,000, net of estimated fallout, and commitments to sell loans of $5,978,000.

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 $14,907,000 at June 30, 2013 and $14,634,000 at June 30, 2012. 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, 2013			June 30, 2012		
	Balance	Allowance	Net	Balance	Allowance	Net
Unrestricted Mortgage Loans:						
General Account	$ 4,250	$ (2,520)	$ 1,730	$ 4,039	$ (2,595)	$ 1,444
Other Loan Programs	54,323	(12,312)	42,011	58,509	(12,400)	46,109
Total	$ 58,573	$ (14,832)	$ 43,741	$ 62,548	$ (14,995)	$ 47,553

__Capital assets, net of depreciation__ include land, buildings, furniture and equipment that are stated at their original cost less accumulated depreciation. Capital asset expenditures of $20,000 or more with a useful life greater than 1 year are capitalized at cost and reported net of accumulated depreciation. Depreciation is computed using the straight-line method over the useful lives of the assets, which are from 30 to 40 years for buildings and from 3 to 10 years for furniture and equipment.

(Dollars in thousands)	**June 30, 2012**	**Additions**	**Deletions**	**June 30, 2013**
Land	$ 2,030	$ -	$ -	$ 2,030
Buildings	8,162	427	-	8,589
Equipment and furnishings	1,056	25	-	1,081
	11,248	452	- -	11,700
Accumulated depreciation:				
Buildings	1,062	193	-	1,255
Equipment and furnishings	170	205	-	375
	1,232	398	-	1,630
Total	$ 10,016	$ 54	$ -	$ 10,070

(Dollars in thousands)	**June 30, 2011**	**Additions**	**Deletions**	**June 30, 2012**
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
	8,765	9,765	- 7,282	11,248
Accumulated depreciation:				
Buildings	880	182	-	1,062
Equipment and furnishings	-	170	-	170
	880	352	-	1,232
Total	$ 7,885	$ 9,413	$ 7,282	$ 10,016

__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 Fund Net Position 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, 2013**			**June 30, 2012**	
	Balance	**Allowance**	**Net**	**Balance**	**Allowance**	**Net**
Restricted Mortgage Loans:						
General Account	$ 521	$ (516)	$ 5	$ 579	$ (574)	$ 5
Land Development	3,484	(1,783)	1,701	3,785	(1,757)	2,028
Bond Insurance Account	18,849	(833)	18,016	17,357	(759)	16,598
Bond Programs	644,691	(10,727)	633,964	706,735	(9,574)	697,161
Federal Programs	125,519	(75,235)	50,284	123,324	(69,985)	53,339
Total	$ 793,064	$ (89,094)	$ 703,970	$ 851,780	$ (82,649)	$ 769,131

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 Position.

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, 2013			June 30, 2012		
	Balance	**Allowance**	**Net**	**Balance**	**Allowance**	**Net**
Restricted other assets:						
Accounts receivable	$ 220	$ (119)	$ 101	$ 303	$ (166)	$ 137
Land	2,343	(1,811)	532	2,577	(1,955)	622
Foreclosed property	7,670	(1,891)	5,779	10,079	(2,567)	7,512
Total	$ 10,233	$ (3,821)	$ 6,412	$ 12,959	$ (4,688)	$ 8,271

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.

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

Restricted net position: Net position of the Bond Programs is restricted to meet specified reserve and funding provisions in accordance with the bond resolutions. Net positions 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 $1,264,000,000 and $1,301,000,000 at June 30, 2013 and 2012, respectively. Of this total, the portfolio serviced by the Fund on behalf of others approximated $412,139,000 and $379,327,000 at June 30, 2013 and 2012, 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.

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. *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 2012 financial statements have been reclassified to conform to the 2013 presentation. Such reclassifications had no effect on *Total Net Position.*

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 position 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 $373,000 from the General Account and $8,178,000 from Other Loan Programs for various loans / projects at June 30, 2013. These amounts are included in *Unrestricted net position*. 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 position* for the "Directors' and Officers' Insurance Account" for the purpose of providing indemnification for the directors and officers of the Fund. The fiscal year 2014 administrative budget of $12,067,000 will be provided from the *Unrestricted net position* 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 WVBOTI 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, 2013		June 30, 2012	
	Weighted Avg Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Fannie Mae MBS pools	17.58 years	$ 3,371	$ 3,686	$ 3,885	$ 4,279
Federal agency securities	10.92 years	41,366	51,900	42,040	56,649
U.S. Treasury securities	8.89 years	6,340	8,709	6,330	9,401
West Virginia General Obligations	124 days	1,511	1,513	1,546	1,540
Mortgages held for investment purposes	23.01 years	20,941	20,941	19,744	19,744
Demand Deposits, Money Market Funds	1 day	52,074	52,074	48,203	48,203
Collateralized CDs	97 days	47,106	47,106	48,284	48,284
FDIC Insured CDs	243 days	34,895	34,895	48,245	48,245
WVBOTI deposits	1 day	8,573	8,573	38,615	38,615
Total investments, including cash equivalents		$ 216,177	$ 229,397	$ 256,892	$ 274,960

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.

	Permitted Maturity Limit	Average Maturity as of June 30, 2013
Reserve Funds	30 Years	9 years
Bond Insurance Funds	15 Years	10 years
Other Funds	4 years	5 months
Funds held for others*		1 day

*Funds held for others not applicable to limit calculations

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, 2013, 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, 2013 (Dollars in thousands)	**Maximum of Portfolio**	**Invested Funds**	**% of Total Investment**
Direct Federal Obligations	100%	$ 6,340	3%
Federal Agency Obligations	90%	44,737	22%
Federally Guaranteed Obligations	100%	-	0%
Demand Deposits, Time Deposits	30%	39,970	20%
Collateralized CDs	$50,000	47,106	24%
CDARS FDIC Insured CDs	$50,000	34,895	17%
West Virginia Obligations	15%	1,511	1%
ICS FDIC Insured Money Market Funds	$20,000	-	0%
Mortgages Held for Investment Purposes	30%	20,941	10%
Money Market Funds	25%	1,164	1%
WVBOTI deposits	$40,000	4,606	2%
TOTAL		$ 201,270	100%
Funds Held for Others *	N/A	14,907	
TOTAL INVESTED FUNDS		$ 216,177	

* 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 $52,074,000 and $48,203,000 as of June 30, 2013 and 2012, respectively. Bank balances approximated $52,715,000 and $48,297,000 as of June 30, 2013 and 2012, respectively, of which approximately $19,540,000 and $27,288,000 was covered by federal depository insurance as of June 30, 2013 and 2012, respectively, and $33,090,000 and $18,609,000 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, 2013 and 2012, respectively. Also included in the bank balances above are trust account money market fund balances of $85,000 and $2,400,000 as of June 30, 2013 and 2012, 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 Statements of Net Position. Investments are included at estimated fair value in the accompanying financial statements as follows:

(Dollars in thousands)	June 30, 2013	June 30, 2012
Cash and cash equivalents	$ 27,166	$ 22,951
Current restricted cash and cash equivalents	47,325	79,365
Noncurrent restricted cash and cash equivalents	31,123	28,758
Restricted investments	101,329	118,602
Investments	1,513	5,540
Plus mortgages held for investment purposes	20,941	19,744
Total Investments and cash equivalents	$ 229,397	$ 274,960
Less unrealized gains	13,220	18,068
Total Invested Funds	$ 216,177	$ 256,892

In accordance with GASB 31 at June 30, 2013, the Fund has an unrealized gain on investments of $13,220,000. This represents a $4,848,000 decrease from the June 30, 2012 unrealized gain on investments. A portion of this unrealized gain, $1,280,000 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, 2013 and to properly reflect the rebate liability, a $4,858,000 decrease was recorded in *Net investment earnings* in the Statements of Revenues, Expenses, and Changes in Fund Net Position for year ended June 30, 2013.

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 75.83% 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, 2013 and 2012 was $141,593,000 and $208,085,000, respectively. In addition, 2013 and 2012 included the refunding of bonds in the amount of $25,000,000 and $105,510,000, respectively. The 2013 refundings reduced total debt service payments over the next 26 years by approximately $14,038,000 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 $4,830,000. Total pledged revenues in 2013 and 2012 were $142,958,000 and $148,030,000, 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 funds from the DEP Clean Water Revolving Loan Fund. These funds are then loaned to State residents to upgrade, replace or repair inadequate septic systems. Initially, the Board authorized $1,000,000 for the OSLP and in March 2013 the Board authorized an additional $1,000,000 for the program. 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, 2013, *Bonds & notes payable - noncurrent* include a $791,000 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, 2013 and 2012, the Fund redeemed or refunded $121,360,000 and $267,250,000 of bonds, respectively, at redemption prices that approximated their carrying value.

The following charts summarize bond and note activity from 2012 to 2013 and 2011 to 2012, respectively.

	Bonds Payable Current	**Bonds & Notes Payable Noncurrent**	**Bonds & Notes Payable Total**
Outstanding Balance, June 30, 2012	$ 66,245	$ 515,139	$ 581,384
Debt Issued	-	21,250	21,250
Debt Paid	(25,000)	(65)	(25,065)
Early Redemptions	(32,465)	(88,895)	(121,360)
Amortization of Premium	-	(511)	(511)
Reclassification from noncurrent to current	31,645	(31,645)	-
Outstanding Balance, June 30, 2013	$ 40,425	$ 415,273	$ 455,698

	Bonds Payable Current	**Bonds & Notes Payable Noncurrent**	**Bonds & Notes Payable Total**
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	$ 66,245	$ 515,139	$ 581,384

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, 2013	Outstanding at June 30, 2012
	(Dollars in thousands)		
OTHER LOAN PROGRAMS			
Notes Payable (0.00%) (1)	$ 1,000	$ 790	$ 606
HOUSING FINANCE BOND PROGRAM			
1998 Series F (5.70%), due 2013	2,235	110	320
2003 Series A	25,000	-	25,000
2003 Series B (4.90%), due 2014-2039	17,500	17,500	17,500
2003 Series C	16,800	-	1,740
2004 Series A (4.40%), due 2013-2033	30,000	14,470	17,910
2004 Series B	20,000	-	2,700
2004 Series C (4.35%), due 2013-2034	35,000	20,010	23,415
2005 Series A (4.375%), due 2013-2034	30,000	15,175	18,845
2005 Series B (4.40%), due 2013-2032	60,110	21,395	28,920
2005 Series C (4.50%), due 2013-2034	30,000	15,980	19,305
2006 Series B (4.70%), due 2013-2040	30,000	27,235	27,720
2006 Series C (5.00%), due 2013-2039	40,000	20,120	24,575
2006 Series D (4.00% to 5.75%), due 2013-2036	35,000	6,455	22,420
2007 Series A (4.05% to 5.50%), due 2013-2037	60,000	32,760	39,430
2007 Series B (6.00%), due 2014-2037	40,000	5,865	10,690
2007 Series C (5.75%), due 2014-2037	35,000	5,325	9,275
2008 Series A (4.45%), due 2013-2016	20,000	1,475	4,845
2008 Series B (variable rate adusted weekly) due 2030-2038	10,000	10,000	10,000
2010 Series A,B,C (1.40% to 4.50%), due 2013-2029	130,870	65,670	108,445
2011 Series A (1.195% to 3.622%), due 2013-2021	50,000	43,215	47,850
2013 Series A (0.30% to 3.20%) due 2013-2028	21,000	21,000	-
GENERAL NEW ISSUE BOND PROGRAM			
2011 A (0.80% to 3.90%), due 2013-2041	51,850	47,490	51,400
2012 A (0.40% to 3.35%), due 2013-2041	66,770	62,465	66,770
Total bonds payable, excluding unamortized premium		453,715	579,075
Unamortized bond premium, net		1,192	1,703
Total notes payable		791	606
Total bonds & notes payable, net of unamortized premium		$ 455,698	$ 581,384

(1) Payments are due to the DEP as the Fund receives payments from OSLP loan recipients.

Total bonds payable does not include $9,515,000 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, 2014 and thereafter to maturity.

Bonds Maturing During Year Ending June 30:		Principal	Interest	Total
			(Dollars in thousands)	
2014	(1)	$ 40,425	16,103	$ 56,528
2015		30,420	15,066	45,486
2016		27,875	14,115	41,990
2017		24,890	13,241	38,131
2018		23,350	12,438	35,788
2019-2023		105,315	49,628	154,943
2024-2028		69,070	33,117	102,187
2029-2033		66,360	18,984	85,344
2034-2038		49,365	7,300	56,665
2039-2041		16,645	954	17,599
		$ 453,715	$ 180,946	$ 634,661

(1) - Includes the anticipated redemptions of NIBP Bonds in the amount of $1,180,000 and Housing Finance Bonds in the amount of $8,610,000.

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. As of June 30, 2013 and June 30, 2012 the Fund does not have any excess rebateable investment earnings. Future excess investment earnings may require the establishment of 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 and secondary market loans. 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, 2013, 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, 2013, 48.98% of the Fund's single family Bond Program loans were either VA, USDA Rural Development, or FHA guaranteed. Another 26.85% 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 position 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 fifteen 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, 2013 the required contributor's percentage will increase from 14.0% to 14.5% 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 $970,000, $1,086,000, and $953,000 for the fiscal years ended June 30, 2013, 2012, and 2011, 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, 2013 and June 30, 2012 is $437,000 and $497,000, 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

STATEMENTS OF PLAN NET POSITION
(Dollars in Thousands)

	June 30, 2013	June 30, 2012
ASSETS		
Restricted cash and cash equivalents	$ 289	$ 434
Restricted accrued interest on investments	13	15
Accounts receivable	9	54
Total assets	311	503
Restricted investments:		
U.S. Government Securities	600	816
Federal Agency Securities	2,670	2,268
Total investments	3,270	3,084
Total assets	3,581	3,587
LIABILITIES		
Current liabilities:		
Accounts payable and other liabilities	-	-
Total current liabilities	-	-
TOTAL NET POSITION HELD IN TRUST	$ 3,581	$ 3,587

STATEMENTS OF CHANGES IN PLAN NET POSITION

	2013	2012
ADDITIONS		
Contributions - Employer	$ 219	$ 54
Investment income	(9)	96
	210	150
DEDUCTIONS		
Benefits	205	-
Administrative expenses	11	12
	216	12
CHANGE IN PLAN NET POSITION	(6)	138
NET POSITION HELD IN TRUST:		
BEGINNING OF YEAR	3,587	3,449
END OF YEAR	$ 3,581	$ 3,587

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, 2013 the Fund has unfunded actuarial liabilities of $1,398,000.

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,	
	2013	**2012**	**2011**
Annual Required Contribution	$ 219	$ 54	$ 54
Interest on Net OPEB Obligation	-	-	-
Annual OPEB cost (expense)	219	54	54
Contributions Receivable*	219	54	54
Increase in Net OPEB Obligation	-	-	-
Net Obligation - Beginning of Year	-	-	-
Net Obligation - End of Year	$ -	$ -	$ -

*100% was contributed by the Fund for fiscal years 2013, 2012 and 2011 in July 2013, July 2012 and July 2011, 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, 2013, January 1, 2010 and January 1, 2007 was as follows:

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/2013	$ 3,609	$ 5,008	1,399	72%	$ 5,217	27%
1/1/2010	3,202	2,114	(1,088)	151%	5,365	(20%)
1/1/2007	2,678	2,244	(434)	119%	5,259	(8%)

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, 2013 actuarial valuation, the following information was used:

Actuarial Method	Entry Age Normal
Amortization Method	Level Percentage of Pay Closed
Remaining Amortization Period	24 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	4.50%
Rate of Salary Increases	3.00%
Ultimate Rate of Medical Inflation	4.00%

NOTE I – SUBSEQUENT EVENTS

On August 1, 2013 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 $9,790,000.

NOTE J - NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68, Accounting and Financial Reporting for Pensions, which will be effective for the Fund’s financial statements June 30, 2015. The Fund has not yet determined the effect this statement 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.