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WCRA

Meeting Washington's Affordable Housing Needs Through Partnership

Annual Report 2012

WCRA MISSION STATEMENT

- To be a catalyst for the creation and preservation of affordable housing in Washington state.
- To expand resources for real estate based community development in Washington state.
- To be a voice for its member financial institutions on affordable housing and community development issues.
- To provide a dynamic risk sharing vehicle to maximize private investment in community development throughout Washington state.
- To operate within a strategic and financially prudent structure.
- To work with public sector entities to promote public/private partnerships that achieve maximum leverage of public dollars.
- To provide value to its members and the communities they serve that will generate and sustain support for WCRA's long term operation and success.

TABLE OF CONTENTS

Chair and President's Letter 2

Affordable Community Environments (ACE) 3

Featured Projects:

Cascadia Village 4

Gateway Gardens 6

McCallister Village 8

Fiscal Year 2012 Infographics 10

WCRA Board of Directors, Loan Committee, Membership 12

Report of Independent Auditors and Consolidated Financial Statements 13

CHAIR AND PRESIDENT'S LETTER

Larry Burke, *Chair*

Susan M. Duren, *President*

At the end of our 20th year on September 30, 2012, the WCRA continued to grow its net assets, loans held for investment, and cash and investments to an all-time high. This year one of the WCRA members acquired two other member banks bringing our membership to 39 banks.

Our year ended with positive net revenue, which increased our net assets to $2.496 million and grew our cash and investments to an excess of $2.6 million. We recognize that having a positive year-end is enviable in these economic times, and the continued effort to control our expenses has been instrumental in our success.

During our fiscal year WCRA received $8,672,769 in new applications and approved loans for six transactions, in addition to facilitating the investment in a private placement bond transaction and three Capital Plus! loans. These new approvals included senior housing, a mobile home park, and the Capital Plus! transactions created housing for developmentally disabled persons and community centers. The bond transaction was approved and two WCRA members participated. We closed 10 loans and the bond transaction totaling $15,105,612, including an economic development property with 7,563 square feet of commercial space, and creating 452 units of affordable rental housing for families and seniors.

WCRA has now funded or committed to fund in 87% of the 39 counties across Washington and we have created or preserved affordable rental housing in 91 communities across the State. The Capital Plus! funds are provided under a special Memorandum of Understanding (MOU) from the Washington State Housing Finance Commission. The WCRA continues to provide construction loan support to the Department of Commerce Housing Finance Unit on construction projects with housing trust fund awards. This is the tenth year our partnership with the Department of Commerce has been in place.

The WCRA portfolio continues to perform and, with all loan payments made as agreed, we have no nonaccrual or impaired transactions. With the growth in our portfolio, our loan loss reserve was increased to meet our established guidelines. Many of the properties in our portfolio have extensive waiting lists for tenants who are eligible for these apartments. Through the support and financial resources from our member institutions, the commitment of our housing developers, our members and our public partners, we have been involved in the creation of more than 10,300 affordable housing units for the residents of Washington state. There remains a great many people who are in need of affordable rental housing as they continue to search for a job or employment that provides a living wage. Our success in meeting our mission is the result of the collaboration of public and private financing, which continues to be very instrumental in creating the permanent loans we make, along with the support of our member institutions, the Board of Directors and Loan Committee. Our heartfelt gratitude to all!

AFFORDABLE COMMUNITY ENVIRONMENTS (ACE)

Affordable Community Environments (ACE) is a nonprofit organization serving Southwest Washington that was formed in 1998. ACE has affordable rental housing communities throughout Clark County stretching from western Vancouver to eastern Washougal. WCRA is pleased to have partnered with ACE on three out of five of their completed projects in Southwest Washington, and proudly include them in this annual report.

MISSION STATEMENT:

ACE develops and nurtures sustainable and affordable housing communities in Southwest Washington that provide residents with stability, support and opportunities for growth.

ACE's name embodies their long-term vision for the organization and our community.

AFFORDABLE

Our Vision is for all residents of Southwest Washington to have a place to call home that is safe, beautiful and affordable.

COMMUNITY

Our Vision is to create communities in which residents are both supported by ACE and actively participate in leading happy, healthy and enriching lives.

ENVIRONMENTS

Our Vision is that our communities and residents foster sound environmental practices in development and living.

ACE have five adopted Core Values to direct everything they do:

- Creating Vibrant Community
- Environmental and Financial Sustainability
- Quality and Innovation in Design, Development and Maintenance
- Safe and Supportive Environment
- Engaged Residents

CASCADIA VILLAGE

Cascadia Village was funded in 2004 and consists of 51 units of safe and affordable housing for Vancouver families. 50 of the units are rent restricted to a maximum of 60% AMI or less, and there is an unrestricted manager unit. ACE also provides many opportunities for resident activities in the charming community building.

Interview with Roberta

Roberta has been a resident at Cascadia Village for almost four years. Prior to moving there and working with the ACE property coordinator, Kim, Roberta relied on friends to manage her finances, who actually turned out to be not-so-friendly, as they were stealing from her Social Security checks. Since moving to Cascadia Village, Roberta was able to secure legal help and get her finances under the control of a trustee so no one will be able to steal from her again. She can also afford to do the things she loves, like camping, gardening, sewing, and taking care of her two cats, Sugar and Spice. She loves that she has her own garden space in the courtyard and can make crafts to sell at the holiday bazaar.

Roberta and Kim

"This is my home. Good, safe housing is something you have to have. I like to entertain people, and since I don't have any family, friends are very important to me, as is community. I love the monthly bingo session, getting a manicure and pedicure, and decorating for the holidays. I was chosen to be the elf that helps Santa hand out presents at our holiday party and I really, really like that."

She credits Kim and ACE with building and supporting a community where she can feel safe and learn to trust people again. She believes that residents are lucky to have such a nice place to live and is comforted by the level of security on the property. Kim says that it is *"rewarding to watch Roberta become happy and mostly independent."*


BUMP
CASCADIA VILLAGE
9600 NE 72ND STREET

GATEWAY GARDENS

Loan funds for Gateway Gardens financed the acquisition and renovation of this 32-unit property in Washougal and preserved it as affordable housing. Prior to the renovation of Gateway Gardens the area was regarded as distressed by area residents but evidenced a complete shift in perception once the renovation was complete and ACE implemented new management policies. Residents of the property chose a new name to match the improved atmosphere and conditions once the renovation was complete.

Interview with Kollett Carlson and Nicole Miller, Gateway Gardens

Kollett and Nicole moved in to the apartment complex 11 years ago, before ACE owned it. Kollett is a former addict and moved to the complex with her daughter when she decided to get clean and turn her life around. They can both speak to the tremendous differences in the community since ACE acquired the property in 2010. They are eager participants in the classes that ACE has hosted in the community center including cooking and nutrition, making stepping stones, quilting and making lavender sachets.

"Since the makeover of our apartment complex two years ago there have been a lot of positive changes for myself and my daughter. We feel much safer in our home at night with windows and doors that lock properly, and definitely stay cooler in the summer and much warmer and cozier in the winter months.

We both are spending a lot more time outdoors as we have participated in the gardens and enjoy visiting with the other neighbors who also enjoy gardening.

People used to call us the low-income slum area of Washougal but we now hear people talk about what a nice improvement to the community and how we no longer look low-income.

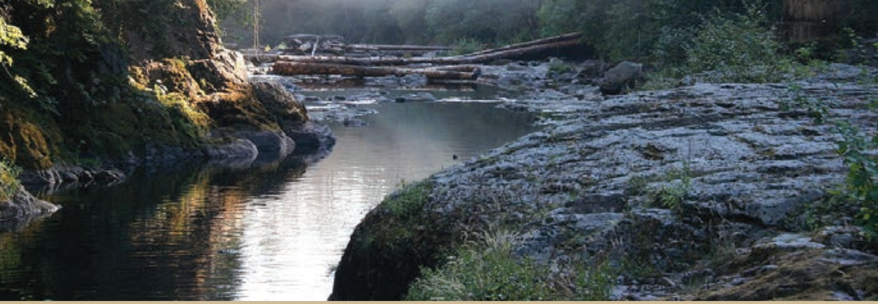
My daughter and I both suffer from major depression and used to spend most of our time indoors. Now our depression has gotten so much better since we are actively participating in the wide variety of classes that are being offered by our coordinator, Kim.

Both of us value our new home, great neighbors, and the wonderful friendships we've made here. All of the positive changes have made us much happier people. Thank you for giving us a better place to live."

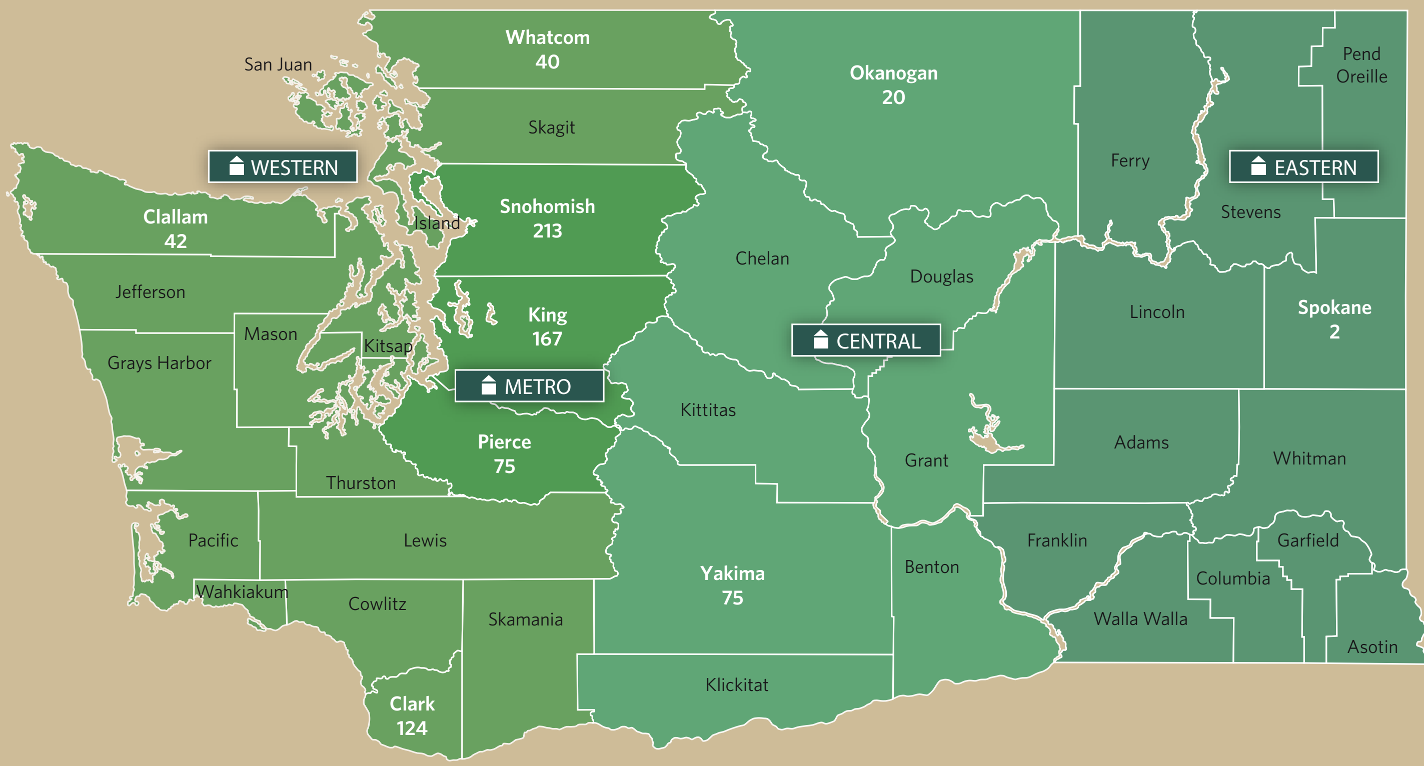
McCALLISTER VILLAGE

McCallister Village is a 48-unit multi-family community located in the Fruit Valley neighborhood, in West Vancouver. ACE began leasing to tenants in April 2011. Fruit Valley is a low income neighborhood by federal standards, with a median household income approximately 48% lower than the median income for Clark County. Rents at McCallister Village are restricted to 60% AMI or less, and 10 units are reserved for individuals with disabilities.

The immediate area contains mostly residential and light industrial uses and multi-family development in the area was limited until 2004. An old barn was on the property prior to development and ACE incorporated as much of the reclaimed materials as possible throughout the construction process. Old milking stanchions were repurposed into a durable and unique fence and old barn lumber became a part of the interior design in the commercial lobby area and on the exterior sliding door safety covers. ACE hopes to rent the commercial space to a small grocery store, as the property is located in a food desert. ACE also runs a Kids Club in the community room, host free healthy cooking classes for kids and provides space for the local Boys and Girls Club to run weekly activities.

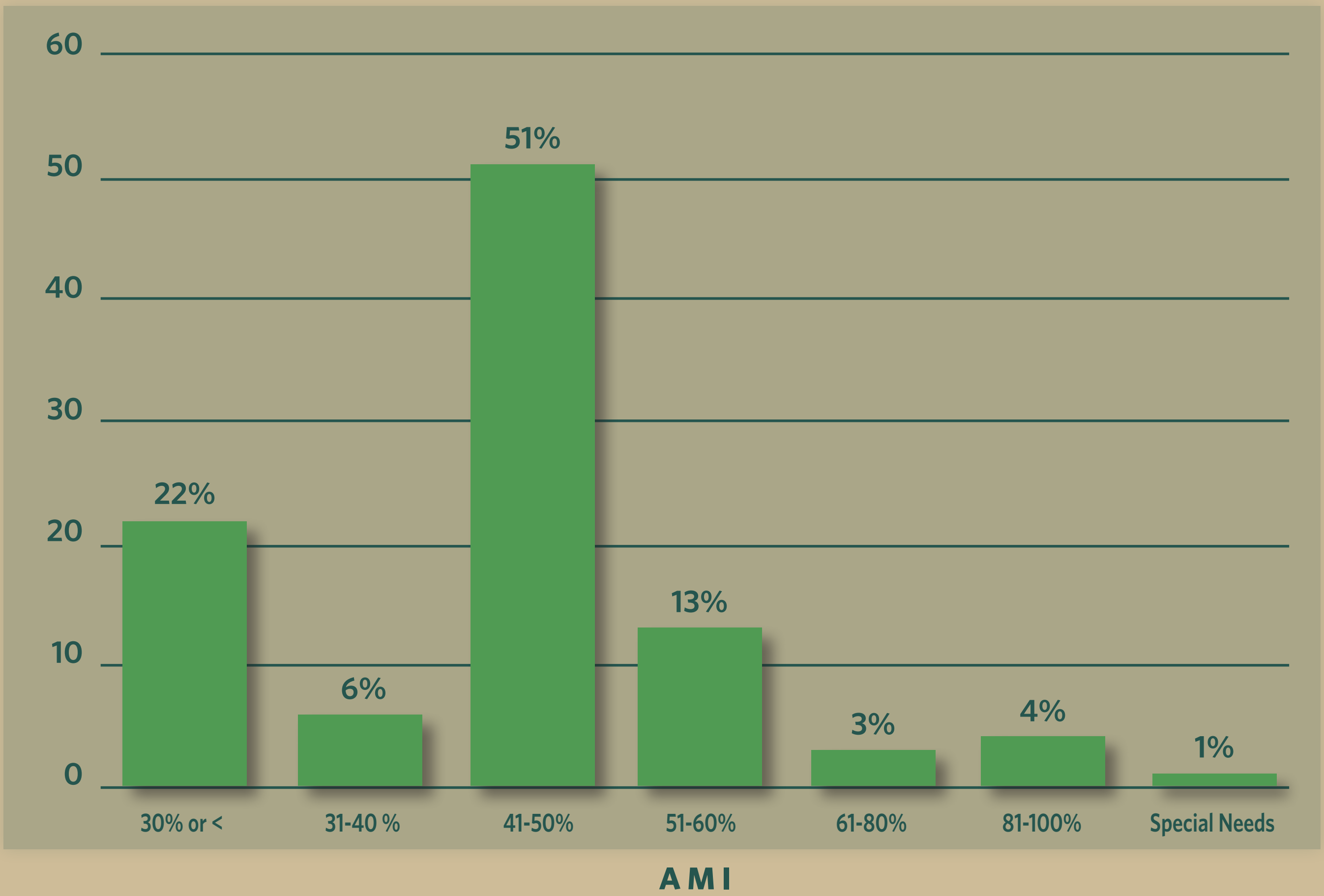


FISCAL YEAR 2012 NUMBER OF UNITS BY COUNTY



FY 2012 TOTALS BY REGION	
Region	**Total Units**
Western	206
Metro	455
Central	95
Eastern	2

FISCAL YEAR 2012 LOANS BY INCOME SERVED (% OF AMI)



FISCAL YEAR 2012 FUNDED AND APPROVED LOANS			
	Amount	Number of Units	Square Feet
Funded Loans	$15,105,612	452	7,563
Approved Loans	$9,731,209	330	19,643

2012 BOARD OF DIRECTORS

Larry Burke, KeyBank — *Chair*
Michael Dotson, Bank of America — *Vice-Chair*
Susan M. Duren, WCRA — *President*
Mike Bush, Washington Federal — *Secretary*
John Swanson, Umpqua Bank — *Treasurer*
Guillermo Sandoval, Banner Bank
Alice Carr, JPMorgan Chase
M.A. Leonard, Enterprise
Judith Olsen, Impact Capital
Bill Richards, Sterling Bank
Scott Gaspard, Washington Financial League
Paul Edwards, Washington State Housing Finance Commission
Christine Rush, Wells Fargo Bank

2012 LOAN COMMITTEE

Lauren Jassny, The Commerce Bank — *Chair*
Scott Catton, Bank of America
David Adams, Columbia Bank
Joseph Ward, Fortune Bank
Luis Lopton, JPMorgan Chase
Jay A. Coleman, KeyBank
Ric Gaunt, Sterling Bank
Marc Rasmussen, Washington Federal
Catharine Carrales, Wells Fargo Bank
Dulcie J. Claassen, WCRA
Susan M. Duren, WCRA

WCRA 2012 MEMBERSHIP

1ST SECURITY BANK OF WASHINGTON
AMERICANWEST BANK
ANCHOR BANK
BANK OF AMERICA
BANK OF THE PACIFIC
BANK OF THE WEST
BANNER BANK
BOSTON PRIVATE BANK
CASHMERE VALLEY BANK
CATHAY BANK
COLUMBIA STATE BANK
THE COMMERCE BANK OF WASHINGTON, N.A.
EAST WEST BANK
FIRST FEDERAL S&L ASSN. OF PORT ANGELES
FIRST SAVINGS BANK NORTHWEST
FORTUNE BANK
FOUNDATION BANK
HERITAGE BANK
HOMESTREET BANK
JP MORGAN CHASE, N.A.
KEY BANK
NORTH CASCADES NATIONAL BANK
NORTHERN TRUST BANK
OLYMPIA FEDERAL S&L ASSN.
OPUS BANK
REGAL FINANCIAL BANK
RIVERVIEW COMMUNITY BANK
SEATTLE BANK
SKAGIT STATE BANK
STERLING BANK
TIMBERLAND BANK
UMPQUA BANK
UNION BANK
WASHINGTON FEDERAL
WASHINGTON TRUST BANK
WELLS FARGO BANK
WEST COAST BANK
WHIDBEY ISLAND BANK
YAKIMA FEDERAL S&L ASSN.

Report of Independent Auditors and Consolidated Financial Statements for Washington Community Reinvestment Association and Subsidiary

September 30, 2012 and 2011

To the Board of Directors

Washington Community Reinvestment Association and Subsidiary

We have audited the accompanying consolidated statements of financial condition of Washington Community Reinvestment Association and Subsidiary (the Association) as of September 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Washington Community Reinvestment Association and Subsidiary as of September 30, 2012 and 2011, and the results of their activities and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Everett, Washington
November 13, 2012

WCRA & Subsidiary Consolidated Statements of Financial Condition

	September 30, 2012	2011
ASSETS		
CASH AND CASH EQUIVALENTS	$ 1,286,085	$ 1,083,226
RESTRIC TED CASH	2,343	2,474
INTEREST-BEARING DEPOSITS	1,313,126	1,298,895
INTEREST RECEIVABLE	462,416	415,652
ACCOUNTS RECEIVABLE AND PREPAID EXPENSES	29,174	30,059
LOANS HELD FOR INVESTMENT — MEMBER INSTITUTIONS, net	80,371,073	70,826,039
LOANS HELD FOR INVESTMENT — WSHFC, net	5,115,524	5,287,811
REAL ESTATE OWNED	282,381	282,381
EQUIPMENT, net	13,414	7,548
TOTAL ASSETS	**$ 88,875,536**	**$ 79,234,085**
LIABILITIES AND UNRESTRICTED NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 179,803	$ 176,098
INTEREST PAYABLE	417,533	373,306
DEFERRED RENT PAYABLE	18,926	17,352
DEFERRED REVENUE	2,343	2,474
PAYABLE TO WSHFC	282,381	282,381
LOANS PAYABLE — WSHFC	5,043,286	5,217,142
NOTES PAYABLE — MEMBER INSTITUTIONS	80,434,509	70,818,963
TOTAL LIABILITIES	**86,378,781**	**76,887,716**
UNRESTRICTED NET ASSETS	2,496,755	2,346,369
TOTAL	**$ 88,875,536**	**$ 79,234,085**

WCRA & Subsidiary Consolidated Statements of Activities

	Years Ended September 30, 2012	2011
REVENUES		
Interest income	$ 5,470,166	$ 4,965,020
Loan fees	124,448	110,165
Construction loan review revenue	141,781	249,801
Contributions from member institutions	-	5,000
Other contributions	8,567	-
TOTAL REVENUES	**5,744,962**	**5,329,986**
EXPENSES		
Interest expense	4,458,666	4,043,123
Salaries and related expenses	574,054	561,360
Provision for loan losses	69,640	-
Professional fees	193,391	292,720
Office expenses	103,536	96,329
Other expenses	178,789	161,449
Contributions and grants	16,500	16,500
TOTAL EXPENSES	**5,594,576**	**5,171,481**
CHANGE IN UNRESTRICTED NET ASSETS	150,386	158,505
Unrestricted net assets, beginning of year	2,346,369	2,187,864
Unrestricted net assets, end of year	**$ 2,496,755**	**$ 2,346,369**

See accompanying notes

WCRA & Subsidiary Consolidated Statements of Cash Flows

	Years Ended September 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from		
Loan fees	$ 132,023	$ 89,847
Other fees	53,093	55,397
Interest	5,423,402	4,946,485
Construction loan review revenue	140,609	260,245
Contributions from member institutions	-	5,000
	5,749,127	**5,356,974**
Cash paid to		
Employees	(540,474)	(564,746)
Vendors	(556,337)	(618,453)
Prepayment fees	(16,226)	(13,030)
Interest	(4,414,440)	(4,014,729)
	(5,527,477)	**(5,210,958)**
Net cash from operating activities	**221,650**	**146,016**
CASH FLOWS FROM INVESTING ACTIVITIES		
Origination of loans held for investment	(13,391,843)	(9,221,228)
Loan principal collected on loans held for investment from member institutions and WSHFC	3,948,737	2,924,996
Purchase of equipment	(3,275)	(7,194)
Purchase of interest-bearing deposits	(1,159,260)	(1,032,932)
Maturity of interest-bearing deposits	1,145,029	959,864
Net cash from investing activities	**(9,460,612)**	**(6,376,494)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable from member institutions and WSHFC related to loans held for investment	13,391,843	9,221,228
Principal repayments on notes payable from member institutions and loans payable to WSHFC related to loans held for investment	(3,950,153)	(3,014,643)
Net cash from financing activities	**9,441,690**	**6,206,585**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**202,728**	**(23,893)**
CASH AND CASH EQUIVALENTS		
Beginning of year	1,085,700	1,109,593
End of year	$ 1,288,428	$ 1,085,700
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION		
Cash and cash equivalents	**$1,286,085**	**$1,083,226**

See accompanying notes

WCRA & Subsidiary Consolidated Statements of Cash Flows *(continued)*

	Years Ended September 30, 2012	2011
RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 150,386	$ 158,505
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Depreciation	5,845	4,113
Donated software	(8,436)	-
Provision for loan losses	69,640	-
Change in operating assets and liabilities		
Interest receivable	(46,764)	(18,535)
Accounts receivable and prepaid expenses	885	10,711
Deferred loan fees	719	(18,020)
Accounts payable and accrued liabilities	3,574	(22,977)
Interest payable	44,227	28,394
Deferred rent payable	1,574	3,825
NET CASH FROM OPERATING ACTIVITIES	**$ 221,650**	**$ 146,016**

See accompanying notes

WCRA & Subsidiary Notes to Consolidated Financial Statements

Note 1 • Organization and Principles of Consolidation

The Washington Community Reinvestment Association began operations on February 10, 1992, as a private not-for-profit organization established to provide permanent financing and technical assistance to facilitate the development of affordable housing in the state of Washington and to otherwise support community development and redevelopment needs. Funding is provided by member institutions under the Credit and Security Agreement (the Agreement) at predetermined percentages, based upon each member's proportionate customer deposits to the member institutions' deposits in total. The consolidated financial statements include the transactions of the Washington Community Reinvestment Association and its wholly owned subsidiary, 1200 Fifth LLC (collectively, the Association). 1200 Fifth LLC was formed to own real property acquired through default from the Association's portfolio. All significant intercompany transactions and balances have been eliminated in consolidation.

The Association has a revolving loan and investment fund. Loans originated from the revolving loan fund earn interest equal to the applicable U.S. government securities rate consistent with the term of the underlying loan and are secured by real estate. The Association makes grants and contributions to nonprofit entities for approved projects. The annual amount of these contributions and grants is determined by the board of directors each year.

The Association has a program to assist potential borrowers in obtaining permanent financing for multifamily projects through tax-exempt bonds purchased by the Association's members. The Association provides these borrowers access to its members and assists in document preparation but does not underwrite the bonds. Direct investments from the Association's members are made to the borrower, with the Association collecting a fee for its assistance, as well as servicing the bonds.

Effective May 28, 2002, the Association entered into a contract with the State of Washington Department of Commerce (formerly the Department of Community, Trade, and Economic Development's (CTED) Office of Community Development) for the purpose of providing construction loan review and evaluation for the Housing Trust Fund construction lending program that provides loans to low income and special needs housing programs and providers to construct and rehabilitate affordable housing in the state.

Effective February 7, 2003, the Association entered into an agreement (the WSHFC Agreement) for a revolving line of credit from the Washington State Housing Finance Commission (the Commission or WSHFC) of up to $7,000,000 for the purpose of making loans to serve nonprofit organizations whose needs for small loan amounts make conventional financing or financing through bonds too costly and inefficient. In the event of default of loans made by the Association with funds borrowed under this revolving line of credit, the Commission, at its sole option, retains the right of assignment, without recourse or warranty, of the loans made in full satisfaction of the amounts borrowed under the line of credit. If such assignment option is not exercised, the Association is not required to repay funds borrowed under this revolving line of credit. WSHFC loans are included in loans held for investment in the consolidated statements of financial condition.

Effective September 1, 2009, the Association entered into a contract with the WSHFC for the purposes of providing construction overview and other services relating to WSHFC's program to create affordable housing in the state.

Note 2 • Summary of Significant Accounting Policies

The financial statements of the Association have been prepared on the accrual basis. Under accounting principles generally accepted in the United States of America, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. All net assets of the Association are classified as unrestricted. The significant accounting policies followed are described below.

Cash and cash equivalents: Cash equivalents are any highly liquid investments with a remaining maturity of three months or less at the date of purchase.

Interest-bearing deposits: Interest-bearing deposits consist of certificates of deposit and money market accounts and are presented at cost and may exceed federally insured limits.

Equipment: Purchased equipment is recorded at cost, and donated equipment is recorded at estimated fair value on the date of donation. All equipment is depreciated over estimated useful lives of three to five years on a straight-line basis. Expenditures for maintenance and repairs are charged to expense as incurred.

Loans held for sale: Loans originated and held for sale are carried at the lower of cost or market value on an aggregate basis. Net unrealized losses, if any, are recognized through a valuation allowance by a charge to income. Nonrefundable fees and direct loan origination costs related to loans held for sale are deferred and recognized as part of the gain on sale when the loans are sold. There were no loans held for sale at September 30, 2012 and 2011.

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Association, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Association does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. No financial assets were transferred during the years ended September 30, 2012 or 2011.

Loans held for investment — member institutions: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at the principal amount outstanding, net of unamortized nonrefundable loan fees and related direct loan origination costs. Deferred net fees and costs are recognized in interest income over the loan term using a method that generally produces a level yield on the unpaid loan balance. Interest is accrued primarily on a simple interest basis on the outstanding principal balance of the loan. Loans held for investment-member institutions consist of loans originated under the Association's Credit and Security Agreement, and loans originated with the Association's cash reserves.

Loans held for investment — WSHFC: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at the principal amount outstanding, net of unamortized nonrefundable loan fees and related direct loan origination costs. Deferred net fees and costs are recognized in interest income over the loan term using a method that generally produces a level yield on the unpaid loan balance. Interest is accrued primarily on a simple interest basis on the outstanding principal balance of the loan. Loans held for investment **—** WSHFC consist of loans originated under the WSHFC Agreement. Based on the WSHFC Agreement, the Association has no personal liability under the Agreement for the payment of loans, and the loans are without recourse or warranty to the Association.

Nonaccrual and impaired loans: Nonaccrual loans are those for which management has discontinued accrual of interest because there exists significant uncertainty as to the full and timely collection of either principal or interest, or because such loans have become contractually past due 90 days with respect to principal or interest.

When a loan is placed on nonaccrual, all previously accrued but uncollected interest is reversed against current-period interest income. All subsequent payments received are first applied to unpaid interest and then to unpaid principal. Interest income is accrued at such time as the loan is brought fully current as to both principal and interest, and, in management's judgment, such loans are considered to be fully collectible.

Loans are considered impaired when, based on current information, management determines it is probable that the Association will be unable to collect all amounts due according to the terms of the loan agreement, including scheduled interest payments. Impaired loans are carried at the lower of the recorded investment in the loan, the estimated present value of expected future cash flows discounted at the loan's effective date, or the fair value of the collateral if the loan is collateral dependent.

Allowance for loan losses: The Association maintains an allowance for loan losses to absorb probable losses inherent in the loan portfolio. The allowance is based on ongoing quarterly assessments of the probable estimated losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses, which is charged against current-period operating results and decreased by the amount of charge-offs, net of recoveries.

The Association's methodology for assessing the appropriateness of the allowance consists of several key elements, including the general allowance and specific allowance.

The general allowance is calculated by applying a loss percentage factor to the portfolio loans based on the internal credit grading and classification system and current economic and business conditions that could affect the collectibility of the portfolio. These factors may be adjusted for significant events, in management's judgment, as of the evaluation date.

Specific allowances are established when determined necessary for impaired loans using the valuation approaches described above, as well as known current business conditions that may affect the Association. Impairment losses are recognized by adjusting an allocation of the existing allowance for loan losses.

Rate lock commitments on loans and notes payable: The Association enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on loans that are intended to be sold are considered to be derivatives. The Association's cost of borrowing to fund the originated loans held for sale is based upon the interest rate of such loans. The commitments to the Association to borrow from member institutions related to the loans held for sale are also derivatives. These derivatives are recorded at fair value, with the change in fair value recorded in earnings. Fair value is based on fees currently charged to enter into similar agreements and, for fixed-rate commitments, also considers the difference between current levels of interest rates and the committed rates. These commitments do not expose the Association to interest rate risk because the associated risk is borne by the member institutions. At September 30, 2012 and 2011, there were no rate lock commitments on loans that are intended to be held for sale.

Real estate owned: Properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. After foreclosure, management periodically performs valuations, and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Any subsequent write-downs are recorded as a decrease in the asset and charged against operating expenses.

Escrow: Customer funds held for operating and completion reserves are not recorded on the books of the Association, because such accounts are held by another institution for the benefit of borrowers. At September 30, 2012 and 2011, the amount of funds held for customers in escrow was $9,130,786 and $8,310,418, respectively.

Contributions received: Contributions received from institutions for membership in the Association and all other contributions are recorded in the statements of activities. Any restricted contributions received and spent in the same year are treated as unrestricted contributions. Restricted cash was $2,343 and $2,474 at September 30, 2012 and 2011, respectively.

Note 2 • Summary of Significant Accounting Policies *(continued)*

Functional allocation of expenses: To provide information regarding service efforts, the costs of providing the Association's programs have been presented in the statements of activities. The Association effectively operates as a single program, and, therefore, no attempt has been made to segregate general and administrative expenses. In addition, the Association's fundraising activities are minimal.

Use of estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the consolidated financial statements. At September 30, 2012 and 2011, the Association has used significant estimates in determining the allowance for loan losses and real estate owned.

Tax status: On June 17, 1996, the Association received an Internal Revenue Service determination letter reaffirming the Association's status as a publicly supported organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Association adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on October 1, 2010, which had no financial statement impact to the Association. The Association recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Association recognizes interest and penalties related to income tax matters in noninterest expense. The Association had no unrecognized tax benefits that would require an adjustment to the October 1, 2010, beginning balance of net assets and had no unrecognized tax benefits at September 30, 2012 or 2011. The Association files an exempt organization return in the U.S. Federal jurisdiction. The Association is no longer subject to income tax examinations by taxing authorities for years before 2008 for its federal filings.

Fair value measurements: Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements follow a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources, whereas unobservable inputs reflect the Association's estimates about market data. In general, fair values determined by Level 1 inputs use quoted prices for identical assets or liabilities traded in active markets that the Association has the ability to access. Fair values determined by Level 2 inputs use inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. At September 30, 2012 and 2011, there were no assets or liabilities measured at fair value on a recurring or nonrecurring basis. The real estate owned in the consolidated statements of financial condition is carried at cost, which is currently less than fair market value.

Subsequent events: Subsequent events are events or transactions that occur after the consolidated statement of financial condition date but before financial statements are available to be issued. The Association recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial condition, including the estimates inherent in the process of preparing the consolidated financial statements. The Association's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial condition but arose after the consolidated statement of financial condition date and before the consolidated financial statements are available to be issued.

The Association has evaluated subsequent events through November 13, 2012, which is the date the consolidated financial statements are available to be issued, and no subsequent events occurred requiring accrual or disclosure.

Note 3 • Equipment

A summary of equipment at September 30 is as follows:

	2012	2011
Equipment	$103,335	$ 92,259
Less accumulated depreciation	(89,921)	(84,711)
	$ 13,414	**$ 7,548**

Depreciation expense for the years ended September 30, 2012 and 2011, was $5,845 and $4,113, respectively.

Note 4 • Loans Held for Investment

Loans held for investment consist of the following at September 30:

Real estate	2012	2011
Non-tax-credit loans	$26,953,603	$19,608,602
Tax-credit loans	54,599,585	52,323,972
Total member institution loans	81,553,188	71,932,574
WSHFC loans	5,110,166	5,287,674
Total real estate	86,663,354	77,220,248
Less		
Allowance for loan losses	(379,110)	(309,470)
Deferred loan fees	(797,647)	(796,928)
	$85,486,597	**$76,113,850**

Changes in the allowance for loan losses for the years ended September 30 were as follows:

	Real Estate Non-tax-credit	Real Estate Tax-credit	Unallocated	2012	2011
Allowance for loan losses, beginning of year	$123,482	$130,810	$55,178	$309,470	$309,470
Provision for loan losses	112,624	12,194	(55,178)	69,640	-
Allowance for loan losses, end of year	**$236,106**	**$143,004**	**-**	**$379,110**	**$309,470**

No loans were sold during the year ended September 30, 2012 or 2011.

The loans originated by the Association are secured by a first deed of trust on the subject property of each loan. Loans are collateralized by real property or other security located within the state of Washington.

During the year ended September 30, 2010, the Association, in lieu of foreclosure, accepted a deed on real estate collateral of a WSHFC loan. At September 30, 2012 and 2011, the asset is in the line item titled Real Estate Owned and the liability is in the line item titled Payable to WSHFC, respectively, in the consolidated statements of financial condition.

Credit quality indicator: The Association classifies lower quality loans as substandard, doubtful, or loss. A loan is considered substandard if it is inadequately protected by the current net worth and pay capacity of the borrower or of any collateral pledged. Substandard assets include those characterized by the distinct possibility that the Association will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions, and values. Loans classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When the Association classifies problem loans as either substandard or doubtful, it may establish a specific allowance to address the risk specifically or the Association may allow the loss to be addressed in the general allowance. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but that, unlike specific allowances, have not been specifically allocated to particular problem assets. Assets that do not currently expose the Association to sufficient risk to warrant classification as substandard or doubtful but possess identified weaknesses are designated as either watch or special mention assets. At September 30, 2012, the Association had no loans classified as doubtful or substandard.

The following table represents the internally assigned grade as of September 30, 2012, by type of loans for both loans held for investment and for WSHFC loans:

	Real Estate		
	Non-Tax-Credit	**Tax-Credit**	**Total**
Member institution loans			
Grade			
Pass	$22,428,408	$53,732,422	$76,160,830
Watch	4,091,867	867,163	4,959,030
Special Mention	433,328	-	433,328
	26,953,603	**54,599,585**	**81,553,188**
WSHFC loans[1]	5,110,166	-	5,110,166
	$32,063,769	**$54,599,585**	**$86,663,354**

[1]*Based on the WSHFC Agreement, the Association has no personal liability under the Agreement for the payment of loans, and the loans are without recourse or warranty to the Association.*

There are no impaired, troubled debt restructurings or nonaccrual loans at September 30, 2012 and 2011.

There were no loans past due more than 90 days and still accruing interest at September 30, 2012 and 2011.

There were no loans past due 30 to 90 days at September 30, 2012 and 2011.

Note 5 • Notes Payable — Member Institutions

Funding for loans originated by the Association has been provided by member institutions under a revolving line of credit as specified in the Agreement. During the 2012 fiscal year, the agreement was amended. The maximum limit on the line of credit is $74,900,000, of which $57,550,291 and $48,406,594 were outstanding at September 30, 2012 and 2011, respectively, and $9,365,691 was approved to be funded for loan commitments (Note 8) as of September 30, 2012. As stated in the Agreement, the terms of the Association's borrowings from member institutions are substantially the same as the terms of the loans the Association will originate. The member institutions receive an assignment of collateral of the specific loans equal to their respective equity percentage interest in each specific note payable. A nominal interest rate spread is retained by the Association to cover operating expenses.

The rate of interest on notes payable to member institutions on amounts borrowed prior to September 15, 1997, was determined based on the applicable rate, at the time the loan was funded, of U.S. government securities with a term consistent with the term of the underlying note payable plus .75%. The rate of interest on amounts borrowed after September 15, 1997, is determined based on the applicable rate, at the time the loan is funded, on U.S. government securities with a term consistent with the term of the underlying note payable plus a minimum of 1%. The rates of interest on all notes payable are fixed over the term of the notes.

Effective September 15, 1997, the Association entered into a nonrevolving line of credit from certain member institutions to provide additional funds for new loans and loan commitments to maintain lending capacity. As of September 30, 2012, there were 23 member institutions participating in the revolving line of credit, and three member institutions participating in the nonrevolving portion. As of September 30, 2012 and 2011, the maximum limit on the line of credit was $25,812,000 and $26,562,000, respectively. Of this amount, $4,550,000 was nonrevolving as of September 30, 2012 and 2011. The outstanding amounts were $20,575,347 and $20,643,002 as of September 30, 2012 and 2011, respectively, and $2,427,219 was approved to be funded for loan commitments (Note 8) on the line of credit as of September 30, 2012. Similar to the revolving line of credit above, the member institutions receive an assignment of collateral of the specific loans equal to their respective equity percentage interest in each specific note payable. A nominal interest rate spread is retained by the Association to cover operating expenses. The interest rate on notes payable to member institutions for the revolving line of credit is a minimum of 1% over the applicable rate on U.S. government securities having a term consistent with the term of the underlying note payable.

Effective May 15, 2001, the Association entered into a line of credit from certain member institutions for the purpose of economic development lending. Effective May 1, 2010, this agreement was amended. The maximum limit on the line of credit is $7,700,000, of which $7,500,000 is revolving and $200,000 is nonrevolving. As of September 30, 2012 and 2011, the outstanding amounts were $2,308,871 and $1,769,367, respectively, and there were no loan commitments approved for funding on the line of credit as of September 30, 2012. Similar to the revolving lines of credit above, the member institutions receive an assignment of collateral of the specific loans equal to their respective equity percentage interest in each specific note payable. A nominal interest rate spread is retained by the Association to cover operating expenses. The interest rate on notes payable to member institutions for the revolving line of credit is a minimum of 1.50% over the applicable rate on U.S. government securities having a term consistent with the term of the underlying note payable.

Future minimum payments of notes payable — member institutions are as follows:

2013	$ 2,569,804
2014	3,344,885
2015	6,747,478
2016	1,579,108
2017	2,138,235
Thereafter	64,054,999
	$ 80,434,509

Notes payable — member institutions, at September 30, 2012, bear interest at rates ranging from 4.00% to 8.11%. The notes are payable in monthly installments, including principal and interest.

Note 6 • Loans Payable — Washington State Housing Finance Commission

Funding for loans originated by the Association has been provided by the Commission under a revolving line of credit as specified in the WSHFC Agreement. The maximum limit on the line of credit is $7,000,000. As of September 30, 2012 and 2011, the outstanding amounts were $5,043,286 and $5,217,142, respectively, and $689,940 was approved to be funded for loan commitments (Note 8) as of September 30, 2012. A nominal interest rate spread is retained by the Association to cover operating expenses. The interest rate on the loans charged by the Commission for the revolving line of credit is 2%, consistent with the terms of the WSHFC Agreement.

Future minimum payments of loans payable — WSHFC are as follows:

2013	$ 170,188
2014	178,450
2015	782,084
2016	634,501
2017	762,537
Thereafter	2,515,526
	$ 5,043,286

Note 7 • Contributions From Member Institutions

Contributions from member institutions were made by the Association's member institutions to cover initial operating expenses. Initial contributions from member institutions were determined to cover the first two years of operating expenses. The first installment was paid prior to September 30, 1992, and the second installment of approximately $57,000 was paid during 1993. In addition, members who join the Association subsequent to the original formation are assessed a one-time contribution. During the year ended September 30, 2012, there were no new member assessments collected and for the year ended September 30, 2011, new member assessments of $5,000 were collected.

Members are admitted for a two-year term and are automatically renewed for subsequent two-year terms unless a member resigns. Changes in membership status (new members and resignations) are accepted annually by the Association members in January. The board of directors may require additional contributions of members in future years. If members do not make any required contribution within 60 days of when it becomes payable, the board of directors may terminate their memberships.

Note 8 • Commitments

The principal balance related to loan commitments to borrowers and member institutions at September 30, 2012, was $12,482,850, all of which was related to affordable housing projects. Commitments to extend credit generally have fixed expiration dates. Because a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Prior to extending commitments, the Association evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the borrower. Loans are collateralized by real property or other security located within the state of Washington.

Contractual future minimum rental payments for the Association's office lease as of September 30, 2012, are as follows:

2013	$ 73,500
2014	75,750
2015	78,000
2016	80,250
2017	20,250
	$ 327,750

Rental expense for the years ended September 30, 2012 and 2011, was $74,447 and $68,739, respectively, and is included in office expenses on the consolidated statements of activities.

The Association's office lease expires in January 2017.

Contractual future minimum rental payments for the Association's copier lease as of September 30, 2012, are as follows:

2013	$ 2,208
2014	2,208
	$ 4,416

Note 9 • Related Party Transactions

All cash and cash equivalents of the Association are on deposit with member institutions. The Association holds interest-bearing deposits with member institutions. Total related party interest-bearing deposits at September 30, 2012 and 2011, were $1,312,565 and $1,298,334, respectively.

Another member bank is acting as funding agent for member bank loans and is paid a monthly servicing fee of one eighth of 1% of the outstanding principal balance. Total funding agent fees for the years ended September 30, 2012 and 2011, were $94,238 and $84,465, respectively.

There were no loans sold during the year ended September 30, 2012 or 2011.

Note 10 • Employee Savings Plan

The Association has a voluntary contribution 403(b) savings plan for all employees. For the years ended September 30, 2012 and 2011, no contributions were made by the Association to the plan.

The Association has an employer-funded 408(k) simplified employee pension plan for all eligible employees. The Association may make a contribution of up to 15% of each employee's total compensation, within certain limits. At September 30, 2012 and 2011, the Association accrued contribution expenses of $34,540 and $31,783, respectively. These amounts are generally paid out in the following fiscal year subject to board approval. The amount accrued at September 30, 2011, was paid in the current fiscal year.

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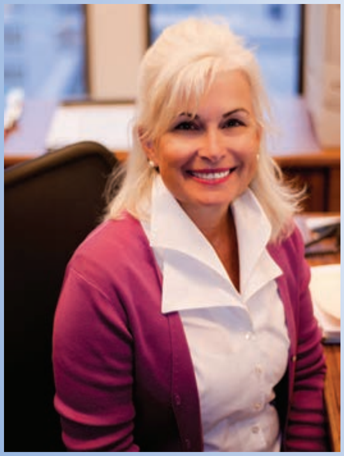

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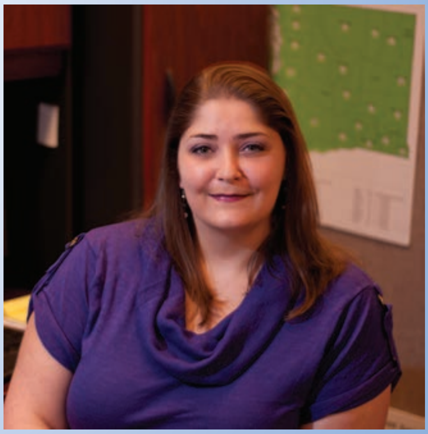

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