WCRA

2011

annual report

Meeting Washington's Affordable Housing Needs Through Partnership

our primary mission is:

- 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.

FEATURED:

1942

SHALISHAN REVITALIZATION PROJECT

2011

New Salishan, Tacoma

WCRA is proud to have been a financing partner in the New Salishan development in Tacoma. WCRA was involved in Phases 6 & 7 of the project, helping to create an additional 181 units of affordable rental housing. With the exception of 2 manager units, all the housing is reserved for individuals or families with incomes at or below 50% AMI.

The Tacoma Housing Authority's (THA) award winning redevelopment of Salishan has been ambitious. It demolished nearly 200 urban acres of worn out public housing built for war workers during World War II. In its place, THA built a new neighborhood of affordable rental housing, single-family homes for sale, parks and green spaces, and a commercial core with important community services, including a community center and a regional health clinic, all on new infrastructure. New Salishan is the largest redevelopment in Tacoma's history and among the largest of its kind in the nation. It was designed to look lovely as well. New Salishan is also ambitious in its goals of social justice. It will increase housing for low income families. It provides housing reserved for homeless families, with services to help them stabilize and prosper. It has more units for persons with disabilities, for large families, and for seniors. New Salishan is the region's most diverse neighborhood in ways that are often segregating in other parts of the market: race, language, national origin, income, homeowner, renter, age, and ability and disability. At Salishan, these are integrating factors.

Environmentally innovative

New Salishan is environmentally innovative. Its housing is energy efficient. Its system of bio-infiltration swales keep 90% of the rain water on site and soaking into the ground so that it never enters the City's storm water system. This means it does not reach Puget Sound, or if it does it is cleansed by the filtering of the ground soil. The seventh phase of Salishan received a designation of LEED Platinum. Its energy efficiency effectively removes about a third of its units from the power grid.

Partnerships & collaboration

New Salishan was possible due to strong partnerships and collaborative efforts. For the last two rental phases, key partners include the Washington Community Reinvestment Association, Washington State Housing Finance Commission, RBC Capital Markets, Washington State Department of Commerce Housing Trust Fund, City of Tacoma/Tacoma Community Redevelopment Authority, Keybank, Pierce County United Way, and HUD. Many of these funders were involved with every phase of the redevelopment. The Salishan redevelopment is a community success.

One of THA's strategic objectives for its development work is to "create and strengthen communities and help them be safe, vibrant, prosperous, attractive and just." New Salishan was a chance to better understand these values and to give them a full expression.

WCRA 2011 Board of Directors

Larry Burke, Key Bank	Chair
Michael Dotson, Bank of America	Vice-Chair
Susan M. Duren, WCRA	President
Mike Bush, Washington Federal Savings	Secretary
Don Brewer, JP Morgan Chase	Treasurer
Guillermo Sandoval, Banner Bank	
M.A. Leonard, Enterprise	
Scott Gaspard, First Savings Bank Northwest	
Heyward Watson, Impact Capital	
Bill Richards, Sterling Savings Bank	
John Swanson, Umpqua Bank	
Ann T. Melone, US Bank	
Paul Edwards, Washington State Housing Finance Commission	
Christine Rush, Wells Fargo Bank	

WCRA 2011 Loan Comittee

Lauren Jassny, The Commerce Bank	Chair
Scott Catton, Bank of America	
David Adams, Columbia Bank	
Joseph Ward, Fortune Bank	
Martin Hughes, JP Morgan Chase	
Jay A. Coleman, KeyBank	
Ric Gaunt, Sterling Savings Bank	
Ann T. Melone, US Bank	
Marc Rasmussen, Washington Federal Savings	
Catharine Carrales, Wells Fargo Bank	
Dulcie Claassen, WCRA	
Susan M. Duren, WCRA	

WCRA 2011 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 CITIZENS 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 SAVINGS BANK
TIMBERLAND BANK
UMPQUA BANK
UNION BANK
U.S. BANK
WASHINGTON FEDERAL SAVINGS
WASHINGTON TRUST BANK
WELLS FARGO BANK
WEST COAST BANK
WHIDBEY ISLAND BANK
YAKIMA FEDERAL S&L ASSN.

Susan M. Duren
-President

Larry Burke
-Chair

Chair & President's Letter

September 30, 2011 was the end of the 19th year of operations for the WCRA and now we have reached the milestone of becoming 20 years old! This year two WCRA members merged and we gained two new members, bringing our total membership to 41 banks. Our Pool 2 lending capacity expanded with the addition of two member banks joining this elective pool and one current member increasing their existing commitment. We are very appreciative of the fact that these voluntary investments give us additional funds for the financing of affordable rental housing.

During the year, we received $8,491,877 in new applications. The loans approved were for 7 transactions that will create 249 units of affordable housing in 6 cities in Washington. The approvals included 5 affordable housing apartment properties for families and 2 new transactions for the Capital Plus! program which is funded through an investment from the Washington State Housing Finance Commission. The Capital Plus! approvals include housing for developmentally disabled persons and a seasonal farm worker property.

We closed 12 loans, including 3 Capital Plus! loans, over the course of the year, totaling $9,221,228 and creating 494 units of affordable housing. The loans created senior and family affordable housing, housing for veterans, a single room occupancy property for formerly homeless women and housing for the developmentally disabled.

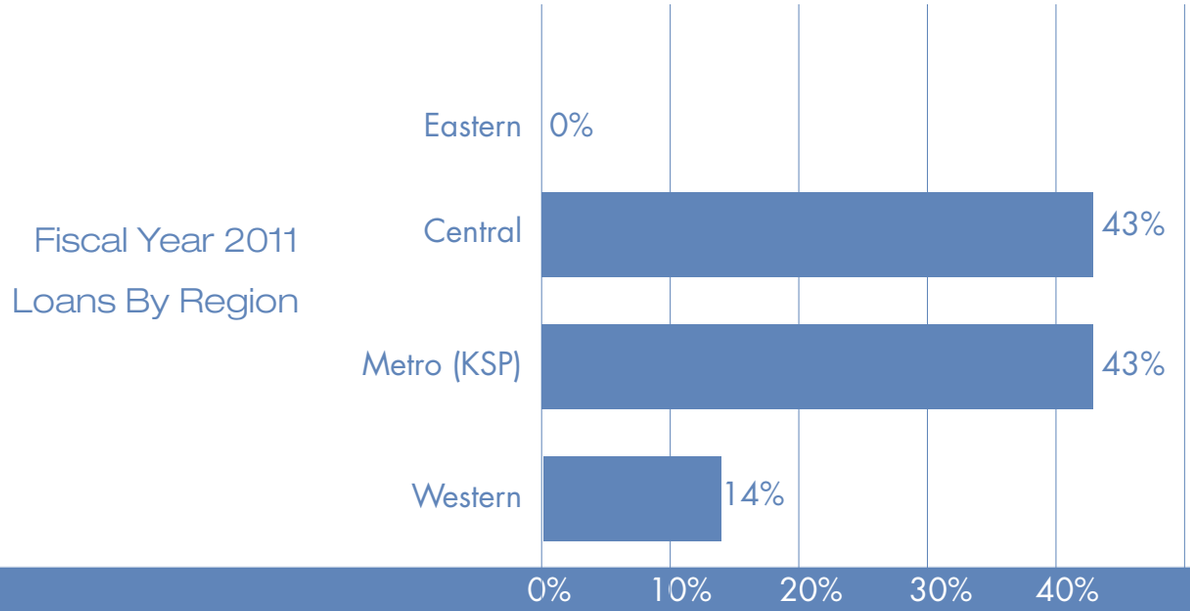
The WCRA continues to provide construction loan support to the Department of Commerce and the Washington State Housing Finance Commission for the American Recovery and Reinvestment Act of 2009 ("ARRA"). The ARRA transactions are nearing the end of the construction part of the contract and are moving into the asset management services portion of the agreement. We ended another year with positive net revenue and increased our net assets $158,505 over last year-end to a total of $2,346,369. Our cash and investments grew marginally to a total of over $2.3 million. We recognize that having a positive year end is enviable in these economic times and we are very appreciative of all the support we receive.

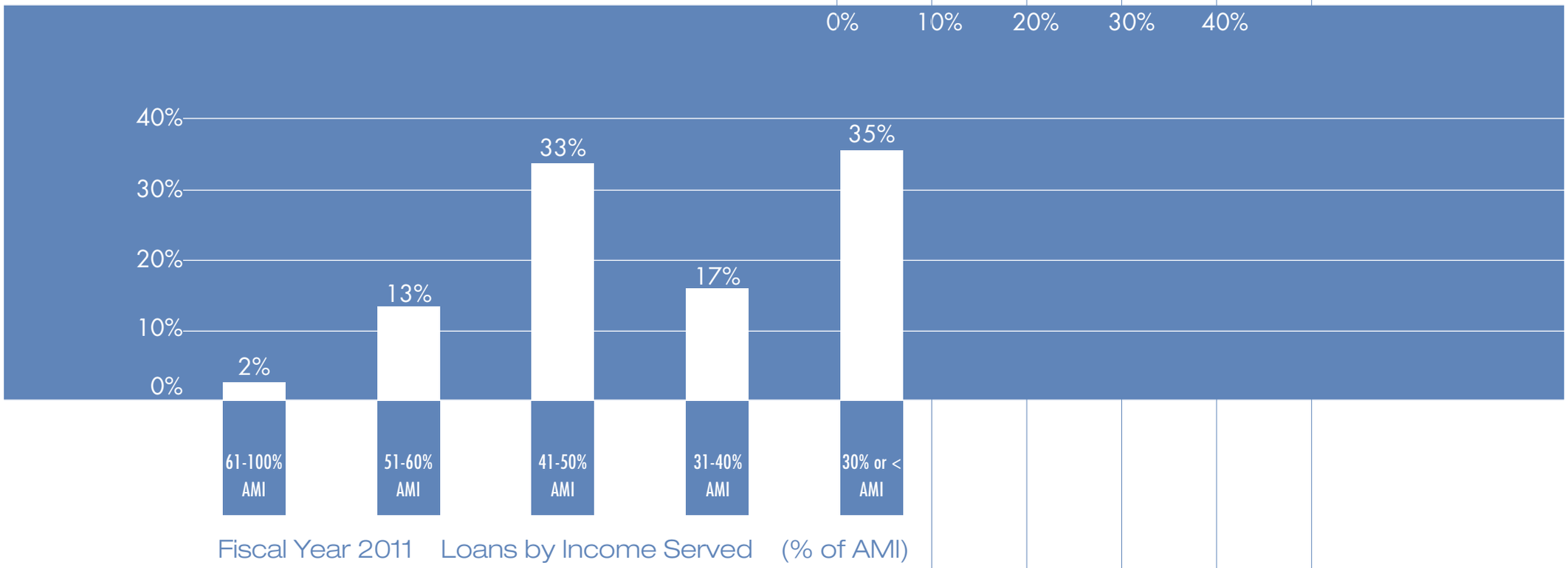
The continued unfavorable outlook for employment and economic improvement has placed more people in a position to require assistance with their daily living needs. These issues have caused affordable housing to experience very high occupancy levels. People who have lost their residences to foreclosure or have become unemployed and find themselves in desperate financial circumstances look to the affordable rental housing market to try to avoid homelessness. This allows our portfolio to perform extremely well but makes a strong case for the continuing need for more affordable housing units throughout the entire state. The funding for developing additional affordable housing takes the collaboration of both public and private financing. Our partnerships remain instrumental in leveraging our loan pools and the continued support and commitment from our member institutions, our board of directors, and the loan committee gives us the tools to continue to meet our mission.

Fiscal Year 2011 Number of Units by County

Fiscal Year 2011 Funded and Approved Projects

	$	Units#	Projects
Projects Funded	$9,634,543	477	9
Projects approved	$4,627,910	238	5


Fiscal Year 2011
Loans By Region
Eastern
0%
Central
43%
Metro (KSP)
43%
Western
14%
0%
10%
20%
30%
40%


40%
30%
20%
10%
0%
2%
13%
33%
17%
35%
61-100% AMI
51-60% AMI
41-50% AMI
31-40% AMI
30% or < AMI
Fiscal Year 2011 Loans by Income Served (% of AMI)

Washington Community Reinvestment Association and Subsidiary

Report of Independent Auditors

September 30, 2011 and 2010

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, 2011 and 2010, 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, 2011 and 2010, 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 9, 2011

WCRA & Subsidiary Consolidated Statements Of Financial Condition

	SEPTEMBER 30,	
ASSETS	2011	2010
CASH AND CASH EQUIVALENTS	$ 1,083,226	$ 1,107,119
RESTRICTED CASH	2,474	2,474
INTEREST-BEARING DEPOSITS	1,298,895	1,225,827
INTEREST RECEIVABLE	415,652	397,117
ACCOUNTS RECEIVABLE AND PREPAID EXPENSES	30,059	40,770
LOANS HELD FOR INVESTMENT, net	76,113,850	69,799,598
REAL ESTATE OWNED	282,381	282,381
EQUIPMENT, net	7,548	4,467
Total assets	$ 79,234,085	$ 72,859,753
LIABILITIES AND UNRESTRICTED NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 176,098	$ 199,075
INTEREST PAYABLE	373,306	344,912
DEFERRED RENT PAYABLE	17,352	13,527
DEFFERED REVENUE	2,474	2,474
PAYABLE TO WSHFC	282,381	282,381
LOANS PAYABLE - WSHFC	5,217,142	4,694,600
NOTES PAYABLE - MEMBER INSTITUTIONS	70,818,963	65,134,920
Total liabilities	76,887,716	70,671,889
UNRESTRICTED NET ASSETS	2,346,369	2,187,864
Total	$ 79,234,085	$ 72,859,753

WCRA & Subsidiary Consolidated Statements Of Activities

	YEARS ENDED SEPTEMBER 30,	
REVENUES	2011	2010
Interest income	$ 4,965,020	$ 5,069,012
Loan fees	110,165	238,060
Construction loan review revenue	249,801	346,864
Contributions from member institutions	5,000	-
Gain on sale of loans	-	900
Total revenues	5,329,986	5,654,836
EXPENSES		
Interest expense	4,043,123	4,126,996
Salaries and related expenses	561,360	539,037
Professional fees	292,720	379,740
Office expenses	96,329	101,543
Other expenses	161,449	197,876
Contributions and grants	16,500	17,500
Total expenses	5,171,481	5,362,692
CHANGE IN UNRESTRICTED NET ASSETS	158,505	292,144
Unrestricted net assets, beginning of year	2,187,864	1,895,720
Unrestricted net assets, end of year	$ 2,346,369	$ 2,187,864

WCRA & Subsidiary Consolidated Statements Of Cash Flows

	YEARS ENDED SEPTEMBER 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from		
Loan fees	$ 89,847	$ 201,478
Other fees	55,397	80,723
Interest	4,946,485	5,098,321
Construction loan review revenue	260,245	347,057
Contributions from member institutions	5,000	-
	5,356,974	5,727,579
Cash paid to		
Employees	(564,746)	(506,573)
Vendors	(618,453)	(724,999)
Prepayment fees	(13,030)	(43,052)
Interest	(4,014,729)	(4,153,579)
	(5,210,958)	(5,428,203)
Net cash from operating activities	146,016	299,376
CASH FLOWS FROM INVESTING ACTIVITIES		
Origination of loans held for investment	(9,221,228)	(11,916,065)
Loan principal collected on loans held for investment	2,924,996	4,385,031
Proceeds from sale of loans	-	9,894,217
Repayment of payable to WSHFC	-	(229,029)
Purchase of equipment	(7,194)	(3,750)
Purchase of interest-bearing deposits	(1,032,932)	(1,225,266)
Maturity of interest-bearing deposits	959,864	1,194,162
Net cash from investing activities	(6,376,494)	2,099,300
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable from member institutions and WSHFC related to loans held for investment	9,221,228	11,916,065
Principal repayments on notes payable from member institutions and WSHFC related to loans held for investment	(3,014,643)	(4,949,845)
Principal repayments on loans sold	-	(9,788,071)
Net cash from financing activities	6,206,585	(2,821,851)

See accompanying notes.

WCRA & Subsidiary Consolidated Statements Of Cash Flows (continued)

	YEARS ENDED SEPTEMBER 30,	
	2011	2010
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (23,893)	$ (423,175)
CASH AND CASH EQUIVALENTS		
Beginning of year	1,109,593	1,532,768
End of year	$ 1,085,700	$ 1,109,593
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION		
Cash and cash equivalents	$ 1,083,226	$ 1,107,119
RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 158,505	$ 292,144
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Depreciation	4,113	8,432
Gain on sale of loans	-	(900)
Change in operating assets and liabilities		
Interest receivable	(18,535)	29,309
Accounts receivable and prepaid expenses	10,711	1,226
Deferred loan fees	(18,020)	(53,855)
Accounts payable and accrued liabilities	(22,977)	48,932
Interest payable	28,394	(26,583)
Deferred rent payable	3,825	671
NET CASH FROM OPERATING ACTIVITIES	$ 146,016	$ 299,376
NONCASH INVESTING ACTIVITIES		
Transfer of loan held for investment to real estate owned	$ -	$ 282,381
Transfer of loans payable - WSHFC to payable WSHFC	$ -	$ 282,381
Transfer of loans held for investment to loans held for sale	$ -	$ 9,893,319

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 on the consolidated statement 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, 2011 and 2010. During 2010, certain loans were transferred to loans held for sale and were sold prior to September 30, 2010.

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.

Loans held for investment - 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 consist of loans originated under the Association's Credit and Security Agreement, the WSHFC Agreement, and loans originated with the Association's cash reserves.

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

Note 2 - Summary of Significant Accounting Policies continued

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, 2011 and 2010, 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 the lower of the recorded investment or its 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, as such accounts are held by another institution for the benefit of borrowers. At September 30, 2011 and 2010, the amount of funds held for customers in escrow was $8,310,418 and $6,224,873, 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 $2,474 at September 30, 2011 and 2010.

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 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 financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the financial statements. At September 30, 2011 and 2010, 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, 2009, 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, 2009, beginning balance of net assets and had no unrecognized tax benefits at September 30, 2011 or 2010. 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 2007 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, while unobservable inputs reflect our 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, 2011 and 2010, there were no assets or liabilities measured at fair value on a recurring or nonrecurring basis. The real estate owned on 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 9, 2011, which is the date the 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:

	2011	2010
Equipment	$ 92,259	$ 105,733
Less accumulated depreciation	(84,711)	(101,266)
	$ 7,548	$ 4,467

Depreciation expense for the years ended September 30, 2011 and 2010, was $4,113 and $8,432, respectively.

Note 4 - Loans Held for Investment

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

	2011	2010
Real estate loans	$ 77,220,248	$ 70,924,016
Less		
Allowance for loan losses	(309,470)	(309,470)
Deferred loan fees	(796,928)	(814,948)
	$ 76,113,850	$ 69,799,598

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

	2011	2010
Allowance for loan losses, beginning of year	$ 309,470	$ 309,470
Provision for loan losses	-	-
Allowances for loan losses, end of year	$ 309,470	$ 309,470

Note 4 - Loans Held for Investment (continued)

During the year ended September 30, 2010, the Association sold loans to member institutions as described in Note 9. No loans were sold during the year ended September 30, 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, 2011 and 2010, 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.

There are no impaired or nonaccrual loans at September 30, 2011 and 2010.

There were no loans past due more than 90 days and still accruing interest at September 30, 2011 and 2010.

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. The maximum limit on the line of credit is $74,900,000, of which $48,406,594 and $44,996,421 were outstanding at September 30, 2011 and 2010, respectively, and $15,681,279 was approved to be funded for loan commitments (Note 8) as of September 30, 2011. 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. During the 2011 fiscal year, the agreement was amended multiple times. As of September 30, 2011, there were 24 member institutions participating in the revolving line of credit, and 3 member institutions participating in the nonrevolving portion. As of September 30, 2011 and 2010, the maximum limit on the line of credit was $26,562,000 and $24,632,000, respectively. Of this amount, $4,550,000 and $300,000 was nonrevolving as of September 30, 2011 and 2010, respectively. The outstanding amounts were $20,643,002 and $18,296,487 as of September 30, 2011 and 2010, and $3,140,974 was approved to be funded for loan commitments (Note 8) on the line of credit as of September 30, 2011. 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, 2011 and 2010, the outstanding amounts were $1,769,367 and $1,842,012, respectively, and no loan commitments were approved for funding (Note 8) as of September 30, 2011. 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:

2012	$ 1,351,846
2013	3,506,376
2014	3,217,987
2015	7,117,781
2016	1,417,654
Thereafter	54,207,319
	$ 70,818,963

Notes payable - member institutions, at September 30, 2011, 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, 2011 and 2010, the outstanding amounts were $5,217,142 and $4,694,000, respectively, and there were no loan commitments approved for funding (Note 8) as of September 30, 2011. 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:

2012	$ 155,321
2013	162,861
2014	170,768
2015	774,028
2016	676,101
Thereafter	3,278,063
	$ 5,217,142

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, 2011, new member assessments of $5,000 were collected and for the year ended September 30, 2010, there were no new member assessments 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, 2011, was $18,822,253, 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, 2011, are as follows:

2012	$	71,250
2013		73,500
2014		75,750
2015		78,000
2016		80,250
Thereafter		20,250
	$	399,000

Rental expense for the years ended September 30, 2011 and 2010, was $68,739 and $72,523, 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, 2011, are as follows:

2012	$	2,208
2013		2,208
2014		2,208
	$	6,624

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, 2011 and 2010, were $1,298,334 and $1,225,266, 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, 2011 and 2010, were $84,465 and $85,470, respectively.

There were no loans sold during the year ended September 30, 2011. During the year ended September 30, 2010, nine loans with a principal balance of $9,893,319 were sold at the unpaid principal balance, plus $100 per loan, to a related party. Unamortized net deferred fees on these nine loans of $70,338 were recognized in income at the date of sale.

Note 10 - Employee Savings Plan

The Association has a voluntary contribution 403(b) savings plan for all employees. For the years ended September 30, 2011 and 2010, 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, 2011 and 2010, the Association accrued contribution expenses of $31,783 and $30,253, respectively. These amounts are generally paid out in the following fiscal year subject to board approval. The amount accrued at September 30, 2010, was paid in the current fiscal year.

WCRA Staff (left to right)

Susan M. Duren, President

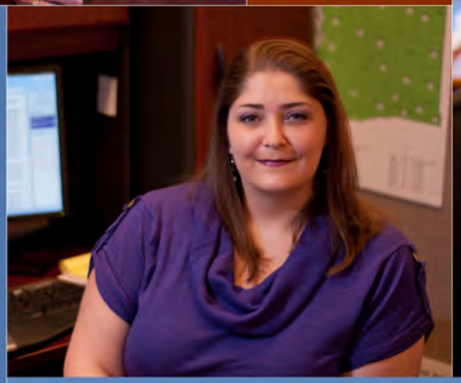
Dulcie J. Claassen, Vice President and Loan Officer

Lauren Edlund, Loan Servicing Officer

Angel L. Ratliff, Administrative Assistant

Ellie Baird, Office Manager

Gary L. Murphy, Assistant Vice President



Property Photos:
Tacoma Housing Authority and affiliates

Staff Photos:
Scott Williams Photography

Designed by:
Catch Design Studio: www.catchstudio.com

WCRA Mailing information:

Washington Community Reinvestment Association
1200 5th Ave, Suite 1406 Seattle, WA 98101
(206) 292-2922 or (800) 788-6508
www.wcra.net info@wcra.net