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**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**

Financial Statements
and Supplementary Information

June 30, 2016 and 2015
(With Independent Auditors' Report Thereon)

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
June 30, 2016 and 2015

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Independent Auditors' Report	1 - 3
Management's Discussion and Analysis	4 - 10
Financial Statements:	
Statements of Net Position	11
Statements of Revenues, Expenses and Changes in Net Position	12
Statements of Cash Flows	13 - 14
Notes to Financial Statements	15 - 34
Required Supplementary Information:	
Schedule 1 - Public Employees' Retirement System of Mississippi - Schedule of VHPB's Proportionate Share of the Net Pension Liability	35
Schedule 2 - Public Employees' Retirement System of Mississippi - Schedule of VHPB's Contributions	36
Notes to Required Supplementary Information	37
Supplementary Information:	
Schedule 3 - Combining Statements of Net Position	38 - 39
Schedule 4 - Combining Statements of Revenues, Expenses and Changes in Net Position	40 - 41
Schedule 5 - Combining Statements of Cash Flows	42 - 45
Schedule 6 - Capital Assets	46
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47 - 49

INDEPENDENT AUDITORS' REPORT

**The Board of Directors
State of Mississippi
Veterans' Home Purchase Board:**

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of State of Mississippi Veterans' Home Purchase Board ("VHPB"), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

*The Board of Directors
State of Mississippi
Veterans' Home Purchase Board
Page two*

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of VHPB as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 1, the financial statements of VHPB are intended to present the financial position, changes in financial position and cash flows of only that portion of the business-type activities of the State of Mississippi that is attributable to the transactions of VHPB. They do not purport to, and do not, present fairly the financial position of the State of Mississippi as of June 30, 2016 and 2015, and the changes in its financial position or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, and the schedules of VHPB's proportionate share of the net pension liability and contributions on pages 35 through 37, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise VHPB's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016, on our consideration of VHPB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering VHPB's internal control over financial reporting and compliance.

Bregada, Sanders & O'Neil, Ltd.

Jackson, Mississippi
October 24, 2016

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Management's Discussion and Analysis
Years Ended June 30, 2016 and 2015

This section of State of Mississippi Veterans' Home Purchase Board's ("VHPB") annual financial report presents the management's discussion and analysis of VHPB's financial performance during the fiscal years ended June 30, 2016 and 2015. Please read it in conjunction with VHPB's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of VHPB exceeded its liabilities and deferred inflows of resources by \$227,393,714 at June 30, 2016, \$222,058,845 at June 30, 2015, and \$217,750,703 at June 30, 2014.
- VHPB's total net position at June 30, 2016, increased \$5,334,869 (2.40%) as compared to total net position at June 30, 2015. This increase is attributable to the interest earned on loans. Total net position at June 30, 2015 increased \$4,308,142 (1.98%), including a prior period adjustment of \$(1,231,872), as compared to total net position at June 30, 2014.
- During the current fiscal year, VHPB's operating expenses totaled \$1,663,708, an increase of \$10,196, as compared to the prior year expenses of \$1,653,512. Operating expenses for the year ended June 30, 2015 increased \$303,843 compared to the year ended June 30, 2014.
- VHPB's operating revenues for the current fiscal year totaled \$6,346,470 as compared to the prior year revenues of \$6,662,972. This was a decrease of \$316,502, primarily due to the decrease in loans made by VHPB over the past few years combined with the decrease in interest rates. Operating revenues for the year ended June 30, 2015 decreased \$27,686 compared to the year ended June 30, 2014.

• At June 30, 2016, VHPB had available loan funds of	\$ 70,996,214
Less: Loans that have been approved but have not closed	(2,625,229)
Loans awaiting board approval	<u>(1,881,696)</u>
Net available loan funds at June 30, 2016	\$ <u>66,489,289</u>

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces VHPB's financial statements. The financial statements present solely the financial position and results of operations and cash flows of VHPB and include: (1) Statements of Net Position, (2) Statements of Revenues, Expenses and Changes in Net Position, (3) Statements of Cash Flows, and (4) Notes to Financial Statements. VHPB also includes in this report additional information to supplement the financial statements. VHPB is an enterprise fund and its financial statements are presented using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Management's Discussion and Analysis
Years Ended June 30, 2016 and 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Statements of Net Position - The statements of net position include all of VHPB's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of VHPB is improving or deteriorating, by reflecting VHPB's overall financial health.

Statements of Revenues, Expenses and Changes in Net Position - The statements of revenues, expenses and changes in net position report how VHPB's net position changed during the fiscal years presented. All current year revenues and expenses are included regardless of when cash is received or paid.

Statements of Cash Flows - The statements of cash flows detail the cash received and expended by VHPB during the fiscal years presented. These statements present cash flows from the following activities: operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

Notes to Financial Statements - The notes to financial statements explain some of the information in the financial statements and provide more detailed data.

Combining Financial Statements - The combining financial statements are included to provide additional information about VHPB's individual funds. Funds are accounting devices that VHPB uses to keep track of specific sources of funding and spending for particular purposes.

VHPB has the following two funds:

Operating Fund - This fund accounts for the operating transactions of VHPB.

Escrow Fund - This fund accounts for the escrow transactions of VHPB.

OVERALL FINANCIAL ANALYSIS

Net Position - As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of VHPB, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$227,393,714 at June 30, 2016, \$222,058,845 at June 30, 2015, and \$217,750,703 at June 30, 2014.

The largest portion of VHPB's net position is unrestricted and available for the issuance of future mortgage loans and for the following years' operating expenses.

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Management's Discussion and Analysis
Years Ended June 30, 2016 and 2015

OVERALL FINANCIAL ANALYSIS (CONTINUED)

The following table presents VHPB's net position at June 30, 2016, compared to June 30, 2015 and 2014. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* were implemented in fiscal year 2015. Fiscal year 2014 amounts were not restated to reflect the implementation of GASB 68 and 71.

<u>Description</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 79,554,834	72,021,263	68,934,351
Loans receivable, net of current portion	150,072,256	152,846,518	149,963,512
Capital assets, net	<u>1,329,983</u>	<u>1,371,619</u>	<u>1,395,478</u>
Total assets	<u>230,957,073</u>	<u>226,239,400</u>	<u>220,293,341</u>
Deferred outflows of resources	<u>454,465</u>	<u>306,600</u>	<u>-</u>
Current liabilities	2,096,985	2,847,333	2,492,955
Noncurrent liabilities	<u>1,876,499</u>	<u>1,440,100</u>	<u>49,683</u>
Total liabilities	<u>3,973,484</u>	<u>4,287,433</u>	<u>2,542,638</u>
Deferred inflows of resources	<u>44,340</u>	<u>199,722</u>	<u>-</u>
Net position:			
Invested in capital assets	1,329,983	1,371,619	1,395,478
Unrestricted	<u>226,063,731</u>	<u>220,687,226</u>	<u>216,355,225</u>
Total net position	\$ <u>227,393,714</u>	<u>222,058,845</u>	<u>217,750,703</u>

Changes in net position - VHPB's total operating revenues for the year ended June 30, 2016, decreased \$316,502 from the previous year, largely due to a decrease in revenues from interest earned on outstanding mortgage loans. Operating revenues for the year ended June 30, 2015, decreased \$27,686 compared to the year ended June 30, 2014.

The interest rates on mortgage loans did not change during the year ended June 30, 2016, as indicated below. The number of outstanding mortgage loans decreased by 49 loans during fiscal year 2016.

During fiscal year 2016, the interest rate on loans maturing in 15 years or less remained at 2.75%.

During fiscal year 2016, the interest rate on loans maturing from 16 to 30 years remained at 3.00%.

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Management's Discussion and Analysis
Years Ended June 30, 2016 and 2015

OVERALL FINANCIAL ANALYSIS (CONTINUED)

VHPB relies on principal and interest payments received on outstanding mortgage loans to make loans available to eligible veterans. During the year ended June 30, 2016, VHPB received \$23,923,791 in principal and interest payments on outstanding loans and issued \$15,667,513 in new loans. At June 30, 2016, VHPB had \$70,996,214 in available loans funds of which \$2,625,229 was committed to loans awaiting closing dates. Additionally, there was \$1,881,696 in loans awaiting approval from VHPB's board of directors.

The implementation of GASB 68 and 71 resulted in a prior period adjustment which decreased the beginning net position for fiscal year 2015 by \$1,231,872.

The following table presents VHPB's operating activities for the fiscal year ended June 30, 2016, compared to the fiscal years ended June 30, 2015 and 2014. Fiscal year 2014 amounts were not restated to reflect the implementation of GASB 68 and 71.

<u>Description</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 6,346,470	6,662,972	6,690,658
Operating expenses	<u>(1,663,708)</u>	<u>(1,653,512)</u>	<u>(1,349,669)</u>
Operating income	4,682,762	5,009,460	5,340,989
Nonoperating revenues (expenses) -			
Interest and other investment income, net	<u>652,107</u>	<u>560,554</u>	<u>581,015</u>
Income before transfers	5,334,869	5,570,014	5,922,004
Transfer from Department of Finance and Administration	-	-	15,333
Transfer to Bureau of Building, Grounds, and Real Property Management	<u>-</u>	<u>(30,000)</u>	<u>(250,000)</u>
Changes in net position	\$ <u>5,334,869</u>	<u>5,540,014</u>	<u>5,687,337</u>

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Management's Discussion and Analysis
Years Ended June 30, 2016 and 2015

CAPITAL ASSETS

VHPB's investment in capital assets, net of accumulated depreciation, as of June 30, 2016, was \$1,329,983. During the year ended June 30, 2016, VHPB did not have any capital asset acquisitions or disposals.

A summary of VHPB's capital assets, net of accumulated depreciation, at June 30, 2016, follows:

<u>Description</u>	<u>Amount</u>
Land	\$ 226,000
Buildings and improvements	1,068,795
Furniture and equipment	32,376
Vehicles	<u>2,812</u>
Net capital assets	\$ <u>1,329,983</u>

VHPB had no capital related debt or capital related deferred inflows/outflows at June 30, 2016 or 2015.

Additional information on VHPB's capital assets can be found in note 7 on page 24 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Because the mortgage market interest rates, over the past few years, have been much lower than the historical average, many VHPB customers have refinanced elsewhere. The portfolio of VHPB has been reduced by more than 500 loans. With legislation that was passed during the 2014 session and went into effect in July 2015, VHPB obtained the ability to refinance loans presently financed with VHPB. This stopped most of the loss of loans due to refinancing. The demand for home loans, stricter underwriting guidelines, and a poor economy has caused the funds not to grow to the extent originally planned. However, funds have grown at an acceptable rate. Depending on the results of the Presidential election, interest mortgage rates could rise and the economy could improve. This and the large number of returning Veterans from foreign wars could increase the demand for our services. Because of the aforementioned, it is our opinion that over the next several years our funds should grow at a respectable pace. If interest rates remain at these historically low rates for an extended period, our rate of return on our portfolio over time will be significantly hampered. It is our opinion that the interest rates will remain at this historically low level for at least another year.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Management's Discussion and Analysis
Years Ended June 30, 2016 and 2015

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

Another factor that has had, and will continue to have, an effect on VHPB is the Biggert Waters Flood Insurance Reform Act of 2012. This will increase the cost of flood insurance to the point that it will hamper the sales and values of properties on the Gulf Coast and other areas that have a history of flooding or are designated flood hazard areas.

Mississippi citizens who have served their country on active military duty and who now reside in the state number approximately 293,000 according to the U. S. Department of Veterans Affairs. If family members are included in the above number, the number of Mississippi citizens affected by veterans' programs and benefits is significant.

VHPB now offers its program to current members of the Mississippi National Guard with over six years of service. If more members of the Guard extend their service time to a minimum of six years and stay members of the National Guard, these personnel may participate in VHPB's loan program.

A factor that may affect VHPB is the increase in the number of people who are eligible to apply for a loan, due to the possible involvement of our military in combating individuals, groups and nations that take action to destroy our economy, our way of life, and our freedoms. Additionally, a factor which may affect VHPB is a change in the U. S. Department of Veterans Affairs policies, rules, and regulations. Such a change, if any, may require a change in our current operating policies and procedures.

A strong factor that has, and will continue to have, an effect on VHPB is the ever changing Federal and State lending regulations, such as the Dodd Frank Act, revisions to the Real Estate Settlement Procedures Act, Regulation Z (Truth in Lending) and many more. While not directly under the governance of the Federal Agencies such as the Consumer Financial Protection Bureau ("CFPB") and HUD, these entities still have a strong influence on our market and the industry in general. The CFPB has all but destroyed the existence of small community banks and has slowed the economy to a crawl. Some in Congress and one of the Presidential candidates have vowed to repeal the Dodd Frank Act. If this is accomplished, the economy should improve greatly.

The last identified external factor that could have a dramatic effect on VHPB and its operation is; in the event that the demand for our lending program exceeds the available funds, it would cause VHPB to create a waiting list for our services. The only time this occurred in recent history was in the late 1970s and early 1980s. When this happened, it caused ill will with the Veterans of Mississippi that took several years to overcome. We have and are taking steps to reduce the possibility of this occurring. However, we are limited as to the amount of available funds at any given time. It is our belief that at this time, and in the foreseeable future, our loan funds will adequately cover the demand.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Management's Discussion and Analysis
Years Ended June 30, 2016 and 2015

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

In an effort to expand the existing level of service to Mississippi's Veterans, VHPB's approved budget for fiscal year 2017 has increased to \$47,439,542.00, and the interest rates charged to the Veterans for its lending services is reviewed by the Board of Directors each month. VHPB has submitted a five-year strategic plan for fiscal years 2018 through 2022 in which it outlines the actions that are planned to be taken in order to counteract or lessen the effects of the aforementioned negative economic factors.

CONTACTING VHPB'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of VHPB's finances and to demonstrate VHPB's accountability for the funds it receives. If you have any questions about this report or would like to request additional information, contact VHPB's Office of Finance and Administration at 3466 Highway 80 East, Pearl, Mississippi 39208.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Statements of Net Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents:			
Equity in internal investment pool	\$ 73,329,638	65,667,004	7,662,634
Cash in banks	27,908	43,471	(15,563)
Total cash and cash equivalents	<u>73,357,546</u>	<u>65,710,475</u>	<u>7,647,071</u>
Receivables, net:			
Advances to cafeteria plan	568	3,602	(3,034)
Interest receivable on loans	501,193	540,608	(39,415)
Due from other funds	14,170	43,489	(29,319)
Due from other governments	-	82,124	(82,124)
Loans receivable, current portion	5,659,630	5,615,704	43,926
Total receivables, net	<u>6,175,561</u>	<u>6,285,527</u>	<u>(109,966)</u>
Prepaid expenses	21,727	25,261	(3,534)
Total current assets	79,554,834	72,021,263	7,533,571
Loans receivable, net of current portion	150,072,256	152,846,518	(2,774,262)
Capital assets, net	<u>1,329,983</u>	<u>1,371,619</u>	<u>(41,636)</u>
Total assets	<u>230,957,073</u>	<u>226,239,400</u>	<u>4,717,673</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred outflows related to net pension liability	<u>454,465</u>	<u>306,600</u>	<u>147,865</u>
<u>LIABILITIES</u>			
Current liabilities:			
Warrants payable	294,260	915,936	(621,676)
Accounts payable and accruals	8,109	15,256	(7,147)
Deposits and funds held for others	1,794,517	1,907,619	(113,102)
Due to other funds	-	503	(503)
Due to other governments	99	145	(46)
Unearned revenue - rental income	-	7,874	(7,874)
Total current liabilities	<u>2,096,985</u>	<u>2,847,333</u>	<u>(750,348)</u>
Noncurrent liabilities:			
Compensated absences	74,248	62,296	11,952
Net pension liability	1,802,251	1,377,804	424,447
Total noncurrent liabilities	<u>1,876,499</u>	<u>1,440,100</u>	<u>436,399</u>
Total liabilities	<u>3,973,484</u>	<u>4,287,433</u>	<u>(313,949)</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred inflows related to net pension liability	<u>44,340</u>	<u>199,722</u>	<u>(155,382)</u>
<u>NET POSITION</u>			
Invested in capital assets	1,329,983	1,371,619	(41,636)
Unrestricted	<u>226,063,731</u>	<u>220,687,226</u>	<u>5,376,505</u>
Total net position	<u>\$ 227,393,714</u>	<u>222,058,845</u>	<u>5,334,869</u>

The notes to financial statements are an integral part of this statement.

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Operating revenues:			
Interest on loans	\$ 6,123,085	6,430,724	(307,639)
Fees	174,245	183,140	(8,895)
Rentals	47,243	47,243	-
Other	<u>1,897</u>	<u>1,865</u>	<u>32</u>
Total operating revenues	<u>6,346,470</u>	<u>6,662,972</u>	<u>(316,502)</u>
Operating expenses:			
General and administrative	1,183,513	1,048,067	135,446
Contractual services	366,108	478,186	(112,078)
Commodities	18,221	40,782	(22,561)
Depreciation	41,636	42,144	(508)
Loss on foreclosed loans	<u>54,230</u>	<u>44,333</u>	<u>9,897</u>
Total operating expenses	<u>1,663,708</u>	<u>1,653,512</u>	<u>10,196</u>
Operating income	4,682,762	5,009,460	(326,698)
Nonoperating revenues -			
Interest and other investment income, net	<u>652,107</u>	<u>560,554</u>	<u>91,553</u>
Income before transfers	5,334,869	5,570,014	(235,145)
Transfers -			
Transfer to Bureau of Building, Grounds and Real Property Management	<u>-</u>	<u>(30,000)</u>	<u>30,000</u>
Changes in net position	5,334,869	5,540,014	(205,145)
Total net position, beginning	<u>222,058,845</u>	<u>216,518,831</u>	<u>5,540,014</u>
Total net position, ending	\$ <u>227,393,714</u>	<u>222,058,845</u>	<u>5,334,869</u>

The notes to financial statements are an integral part of this statement.

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
 Statements of Cash Flows
 For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash receipts from borrowers - miscellaneous	\$ 295,739	196,132
Cash payments to suppliers for goods and services	(465,293)	(517,574)
Cash payments to employees for services	(1,030,021)	(972,232)
Other operating cash receipts (disbursements), net	(90,120)	321,729
Principal and interest received on loans	23,923,791	28,314,569
Issuance of loans	<u>(15,667,513)</u>	<u>(25,042,424)</u>
Net cash provided by operating activities	6,966,583	2,300,200
Cash flows from noncapital financing activities -		
Transfer to Bureau of Building, Grounds, and Real Property Management	-	(30,000)
Cash flows from capital and related financing activities -		
Acquisition of capital assets	-	(18,285)
Cash flows from investing activities -		
Interest and other investment income - nonoperating	<u>680,488</u>	<u>561,649</u>
Net increase in cash and cash equivalents	7,647,071	2,813,564
Cash and cash equivalents at beginning of year	<u>65,710,475</u>	<u>62,896,911</u>
Cash and cash equivalents at end of year	\$ <u>73,357,546</u>	<u>65,710,475</u>
Classified on the balance sheet as follows:		
Equity in internal investment pool	\$ 73,329,638	65,667,004
Cash in banks	<u>27,908</u>	<u>43,471</u>
Cash and cash equivalents at end of year	\$ <u>73,357,546</u>	<u>65,710,475</u>

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
 Statements of Cash Flows
 For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ <u>4,682,762</u>	<u>5,009,460</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	41,636	42,144
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Advances to cafeteria plan	3,034	375
Interest receivable on loans	39,415	5,450
Due from other funds - related to operations	938	(133)
Due from other governments	82,124	(82,124)
Receivable from sale of property	-	40,000
Loans receivable	2,730,336	(3,123,835)
Prepaid expenses	3,534	2,818
Warrants payable	(621,676)	10,116
Accounts payable and accruals	4,805	5,594
Deposits and funds held for others	(113,102)	342,817
Due to other funds	(503)	503
Due to other governments	(46)	87
Unearned revenue	(7,874)	7,874
Net pension liability and related deferred outflows/inflows of resources	<u>121,200</u>	<u>39,054</u>
Total adjustments	<u>2,283,821</u>	<u>(2,709,260)</u>
Net cash provided by operating activities	\$ <u>6,966,583</u>	<u>2,300,200</u>

The notes to financial statements are an integral part of this statement.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2016 and 2015

(1) **Summary of Significant Accounting Policies**

(a) **Reporting Entity**

State of Mississippi Veterans' Home Purchase Board ("VHPB") was established in 1946 by an act of the Mississippi State Legislature. VHPB was established to provide a benefit in the form of mortgage loans to Mississippi veterans in appreciation for their service to our country.

VHPB is administered by a Board of Directors consisting of six members appointed by the Governor, with the advice and consent of the Senate, to serve four-year staggered terms.

For financial reporting purposes, VHPB includes all funds that relate to VHPB operations. VHPB is included in the State of Mississippi's basic financial statements as an enterprise fund using the accrual basis.

(b) **Basis of Presentation**

The accompanying financial statements of VHPB have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles.

(c) **Fund Accounting**

The financial activities of VHPB are recorded in individual funds used to report financial position and changes in financial position. Fund accounting is used to aid financial management by segregating transactions relating to certain activities. A fund is a separate accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations.

The funds reported for VHPB are as follows:

Fund 3734 – operating - This fund accounts for the operating transactions of VHPB.

Fund 3735 – escrow - This fund accounts for the escrow transactions of VHPB.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2016 and 2015

(1) **Summary of Significant Accounting Policies (Continued)**

(d) **Basis of Accounting**

VHPB presents its financial statements as an enterprise fund using the economic resources measurement and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred.

Operating income includes revenues and expenses related to the primary, continuing operations of VHPB. Principal operating revenues are interest charges to customers for mortgage loans. Principal operating expenses are the costs of providing the mortgage loans and include administrative services and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

(e) **Equity in Internal Investment Pool**

Equity in internal investment pool is cash deposited with the State Treasurer's Office and consists of pooled demand deposits and investments carried at cost, which approximates fair value.

(f) **Cash and Cash Equivalents**

VHPB considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Additionally, VHPB considers its equity in internal investment pool to be cash equivalents.

(g) **Loans Receivable**

VHPB makes home mortgage loans to eligible Mississippi veterans from a revolving fund originally established through State general fund appropriations. Because VHPB operates from a revolving fund, there are periods of time when requests for loans exceed the availability of money to lend. In this case, a waiting list is utilized to establish veterans' priority for funding when funds become available.

The terms of financing include a maximum amount (\$250,000 plus a funding fee, at June 30, 2016) and fixed interest rates for the term of the loan. The maximum loan term is thirty years.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2016 and 2015

(1) **Summary of Significant Accounting Policies (Continued)**

(g) **Loans Receivable (Continued)**

Inasmuch as 94.16% of the loans receivable balance is guaranteed by the United States Veterans' Administration, no provision for uncollectable accounts has been made. Substantially all non-guaranteed loans are current, and management anticipates that the loans will be repaid according to loan terms.

(h) **Capital Assets, Net**

The State of Mississippi Department of Finance and Administration has established thresholds for recording capital assets of \$5,000 for furniture and equipment and \$50,000 for buildings.

VHPB records its capital assets at cost. Donated assets are valued at estimated market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized.

Provisions for depreciation are computed by use of the straight-line method over the estimated useful lives of the assets, as follows:

<u>Property Class</u>	<u>Years</u>
Buildings and improvements	40
Machinery and equipment	3 - 10

(i) **Accrued Compensated Leave**

Mississippi law authorizes payment for a maximum of thirty days accrued personal leave in a lump sum upon termination of employment. No payment is authorized for accrued major medical leave unless employees present medical evidence that their physical condition is such that they can no longer work in a capacity of State government. Therefore, accumulated unpaid major medical leave is not accrued because it is not probable that the compensation will be paid in a lump sum other than in the event of severe illness.

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Notes to Financial Statements
June 30, 2016 and 2015

(1) Summary of Significant Accounting Policies (Continued)

(j) Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. VHPB has three pension related items that qualify for reporting in this category – see note 13 for further details.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. VHPB has one pension related item that qualifies for reporting in this category – see note 13 for further details.

(k) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources relating to pensions and pension expense, information about the fiduciary net position of VHPB's pension plan with the Public Employees' Retirement System ("PERS") and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(l) Net Position

Invested in capital assets – represents the costs of capital assets less accumulated depreciation. VHPB did not have any debt or deferred inflows/outflows of resources related to capital assets as of June 30, 2016 and 2015.

Unrestricted – represents the amount of unrestricted funds available for appropriations for future operations.

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Notes to Financial Statements
June 30, 2016 and 2015

(1) **Summary of Significant Accounting Policies (Continued)**

(m) **Budget Information**

The State of Mississippi Department of Finance and Administration ("DFA") monitors VHPB budget compliance through an allotment process. VHPB is responsible for exercising budgetary control and ensuring that allotments are not overspent, subject to DFA review. The legal level of budgetary control is at VHPB level by activity or function as well as by major expenditure classification, if applicable.

(n) **Financial Statement Format**

For consistency, certain 2015 financial statement amounts have been reclassified to conform with the 2016 financial statement presentation. Such reclassifications had no material effect on VHPB's 2015 financial position, results of operations, changes in net position or cash flows.

The increase (decrease) columns in the financial statements and footnotes are presented only to facilitate financial analysis and understanding. Data in these columns do not present financial position, changes in financial position, or cash flows in conformity with accounting principles generally accepted in the United States of America.

(o) **Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

(p) **New Accounting Pronouncements**

Effective for fiscal year 2016, VHPB implemented the following new standards issued by GASB:

GASB Statement No. 72, *Fair Value Measurement and Application*, effective for financial statement periods beginning after June 15, 2015 – this statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of this statement did not have an impact on VHPB's basic financial statements.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2016 and 2015

(1) **Summary of Significant Accounting Policies (Continued)**

(p) **New Accounting Pronouncements (Continued)**

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for financial statement periods beginning after June 15, 2015 – this statement establishes requirements for defined benefit pensions and defined contribution pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*. It also amends certain provisions and clarifies the applications of certain provisions of Statement 67, *Financial Reporting for Pension Plans* and Statement 68. The implementation of this statement did not have a significant impact on VHPB's basic financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for financial statement periods beginning after June 15, 2015 – the objective of this statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles. The implementation of this statement did not have an impact on VHPB's basic financial statements.

Effective for fiscal year 2015, VHPB implemented the following new standards issued by GASB:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions: An Amendment of GASB Statement No 27*, effective for financial statement periods beginning after June 15, 2014 – this statement establishes accounting and financial reporting requirements for pension plans that are administered through trusts or equivalent arrangements. Governments participating in single and agent multiple employer defined benefit plans will be required to recognize a liability equal to the net pension liability.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for financial statement periods beginning after December 15, 2013 – this statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2016 and 2015

(1) Summary of Significant Accounting Policies (Continued)

(p) New Accounting Pronouncements (Continued)

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date: An Amendment of GASB Statement No. 68*, effective for financial statement periods beginning after June 15, 2014 – this statement addresses the reporting of amounts associated with contributions made to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

(q) Advertising

Advertising costs are expensed as incurred. Advertising expense totaled \$2,440 and \$3,854 for the years ended June 30, 2016 and 2015, respectively.

(2) Equity in Internal Investment Pool

Monies deposited with the State Treasurer's Office internal investment pool are considered to be cash and cash equivalents. The State Treasurer is responsible for maintaining the cash balances in accordance with State laws, and excess cash is invested in the State's cash and short-term investment pool. Details of investments of the internal investment pool for State agencies can be obtained from the State Treasurer. As of June 30, 2016, the State's total pooled investments for State agencies were approximately \$3.6 billion, and the average remaining life of the securities invested was 1,054 days.

Investments in the State Treasurer's investment pools are stated at cost, which approximates fair value, and are categorized according to credit risk in the State of Mississippi's Comprehensive Annual Report. However, VHPB's portion of the internal investment pool cannot be individually categorized because the deposits and investments are pooled with other State agencies.

(3) Cash in Banks

Cash in banks consists of demand deposit accounts in local banks. The carrying amount of VHPB's cash deposits as of June 30, 2016, was \$27,908 and the corresponding bank balances were \$108,021. The entire bank balance was covered by federal depository insurance or collateralized in accordance with state law.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2016 and 2015

(3) Cash in Banks (Continued)

The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Mississippi Code Ann. 1972. Under this program, VHPB's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

(4) Due From Other Funds

A summary of amounts due from other funds follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Due from the State Treasurer's Office internal investment pool	\$ <u>14,170</u>	<u>43,489</u>	<u>(29,319)</u>

(5) Due From Other Governments

A summary of amounts due from other governments follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Due from the United States Veterans Administration	\$ <u>-</u>	<u>82,124</u>	<u>(82,124)</u>

(6) Loans Receivable

VHPB makes mortgage loans to eligible Mississippi veterans primarily for the purchase of residential housing. Loans are financed by VHPB's revolving trust fund through repayments of loan principal and interest earnings. Initial funding of \$5,000,000 was appropriated from the State of Mississippi's general fund in 1946. Subsequent appropriations during the Korean and Vietnam wars resulted in net appropriations since 1946 of \$9,600,000. At June 30, 2016, 94.16% of the loans receivable balance was guaranteed by the United States Veterans' Administration. Interest rates on loans vary from 2.5% to 7.25% and are generally repaid over 30 years.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2016 and 2015

(6) **Loans Receivable (Continued)**

A summary of loans receivable follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Guaranteed by the United States Veterans' Administration	\$ 146,639,460	149,923,744	(3,284,284)
Non-guaranteed loans	<u>9,092,426</u>	<u>8,538,478</u>	<u>553,948</u>
Total loans receivable	155,731,886	158,462,222	(2,730,336)
Less loans receivable, current portion	<u>5,659,630</u>	<u>5,615,704</u>	<u>43,926</u>
Loans receivable, net of current portion	\$ <u>150,072,256</u>	<u>152,846,518</u>	<u>(2,774,262)</u>

Loans mature at various intervals through June 30, 2046. The scheduled principal payments receivable on loans maturing in subsequent years are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 5,659,630
2018	5,781,518
2019	5,881,944
2020	5,929,374
2021	5,953,526
Thereafter	<u>126,525,894</u>
Total maturities	\$ <u>155,731,886</u>

As of June 30, 2016, VHPB had 22 loans with outstanding balances totaling \$1,808,880 in delinquent status. Management of VHPB believes that sufficient remedies are available under the loan agreements to prevent any material losses on these loans.

VHPB may extend loans to directors and employees of VHPB, provided they are veterans eligible to participate in the program and meet all VA and VHPB loan underwriting criteria. Such loans are made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable loans with other customers, and do not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. At June 30, 2016, there were no loans outstanding in this group.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2016 and 2015

(7) **Capital Assets**

A summary of capital asset activity for the years ended June 30, 2016 and 2015, follows:

<u>Description</u>	<u>2015 Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>2016 Balance</u>
Capital assets, not being depreciated -				
Land	\$ <u>226,000</u>	<u>-</u>	<u>-</u>	<u>226,000</u>
Capital assets being depreciated:				
Buildings and improvements	<u>1,583,400</u>	<u>-</u>	<u>-</u>	<u>1,583,400</u>
Furniture and equipment	<u>146,241</u>	<u>-</u>	<u>-</u>	<u>146,241</u>
Vehicles	<u>28,121</u>	<u>-</u>	<u>-</u>	<u>28,121</u>
Total capital assets being depreciated	<u>1,757,762</u>	<u>-</u>	<u>-</u>	<u>1,757,762</u>
Less accumulated depreciation for:				
Buildings and improvements	<u>482,937</u>	<u>31,668</u>	<u>-</u>	<u>514,605</u>
Furniture and equipment	<u>103,897</u>	<u>9,968</u>	<u>-</u>	<u>113,865</u>
Vehicles	<u>25,309</u>	<u>-</u>	<u>-</u>	<u>25,309</u>
Total accumulated depreciation	<u>612,143</u>	<u>41,636</u>	<u>-</u>	<u>653,779</u>
Total capital assets being depreciated, net	<u>1,145,619</u>	<u>(41,636)</u>	<u>-</u>	<u>1,103,983</u>
Total capital assets, net	\$ <u>1,371,619</u>	<u>(41,636)</u>	<u>-</u>	<u>1,329,983</u>
<u>Description</u>	<u>2014 Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>2015 Balance</u>
Capital assets, not being depreciated -				
Land	\$ <u>226,000</u>	<u>-</u>	<u>-</u>	<u>226,000</u>
Capital assets being depreciated:				
Buildings and improvements	<u>1,583,400</u>	<u>-</u>	<u>-</u>	<u>1,583,400</u>
Furniture and equipment	<u>127,956</u>	<u>18,285</u>	<u>-</u>	<u>146,241</u>
Vehicles	<u>28,121</u>	<u>-</u>	<u>-</u>	<u>28,121</u>
Total capital assets being depreciated	<u>1,739,477</u>	<u>18,285</u>	<u>-</u>	<u>1,757,762</u>
Less accumulated depreciation for:				
Buildings and improvements	<u>451,269</u>	<u>31,668</u>	<u>-</u>	<u>482,937</u>
Furniture and equipment	<u>93,421</u>	<u>10,476</u>	<u>-</u>	<u>103,897</u>
Vehicles	<u>25,309</u>	<u>-</u>	<u>-</u>	<u>25,309</u>
Total accumulated depreciation	<u>569,999</u>	<u>42,144</u>	<u>-</u>	<u>612,143</u>
Total capital assets being depreciated, net	<u>1,169,478</u>	<u>(23,859)</u>	<u>-</u>	<u>1,145,619</u>
Total capital assets, net	\$ <u>1,395,478</u>	<u>(23,859)</u>	<u>-</u>	<u>1,371,619</u>

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2016 and 2015

(8) Due to Other Funds

A summary of amounts due to other funds follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Due to the Office of the Attorney General	\$ -	422	(422)
Due to the Office of the State Auditor	-	81	(81)
Total due to other funds	\$ -	503	(503)

(9) Due to Other Governments

A summary of amounts due to other governments follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Due to the City of Pearl	\$ 99	145	(46)

(10) Long-Term Liabilities

A summary of changes in the long-term liabilities during the year ended June 30, 2016, follows:

<u>Description</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Compensated absences	\$ 67,283	44,735	(32,641)	79,377	5,129
Net pension liability	<u>1,377,804</u>	<u>539,171</u>	<u>(114,724)</u>	<u>1,802,251</u>	-
Long-term liabilities	\$ <u>1,445,087</u>	<u>583,906</u>	<u>(147,365)</u>	<u>1,881,628</u>	<u>5,129</u>

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2016 and 2015

(10) Long-Term Liabilities (Continued)

A summary of changes in the long-term liabilities during the year ended June 30, 2015, follows:

<u>Description</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>	<u>Due Within One Year</u>
Compensated absences	\$ 53,600	46,926	(33,243)	67,283	4,987
Net pension liability ¹	<u>1,341,116</u>	<u>145,932</u>	<u>(109,244)</u>	<u>1,377,804</u>	<u>-</u>
Long-term liabilities	\$ <u>1,394,716</u>	<u>192,858</u>	<u>(142,487)</u>	<u>1,445,087</u>	<u>4,987</u>

¹The net pension liability is a new long-term liability beginning in fiscal year 2015 as a result of the implementation of GASB Statement No. 68. The prior year balance is a result of a prior period adjustment (see note 13).

(11) Rental Income

VHPB leases office space to the State Veterans' Affairs Board ("SVAB"). The term of the lease runs until SVAB has paid its pro rata share of the total building construction cost, at which time the lease becomes negotiable. SVAB pays a monthly rental fee of \$3,937, which covers SVAB's pro rata share of the costs of utilities and maintenance and construction costs. The payment is first applied to SVAB's share of the costs of utilities and maintenance, with the remainder, if any, applied to construction costs. If SVAB's share of the costs of utilities and maintenance should exceed the rental fee, then the fee will increase to cover SVAB's share of the cost of utilities and maintenance, plus \$250 each month to be applied to the construction cost.

Property related to this lease, carried at cost, is as follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Land	\$ 226,000	226,000	-
Cost of building	1,583,400	1,583,400	-
Accumulated depreciation	<u>(514,605)</u>	<u>(482,937)</u>	<u>(31,668)</u>
Net book value of property	\$ <u>1,294,795</u>	<u>1,326,463</u>	<u>(31,668)</u>
Depreciation expense	\$ <u>31,668</u>	<u>31,668</u>	<u>-</u>

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Notes to Financial Statements
June 30, 2016 and 2015

(11) Rental Income (Continued)

Subject to the interpretations of Mississippi Senate Bill No. 2362 regarding the Mississippi Budget Transparency and Simplification Act of 2016, future minimum rental payments to be received for the next five fiscal years are summarized below:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 47,243
2018	47,243
2019	47,243
2020	47,243
2021	<u>47,243</u>
Total minimum future rentals for the next five fiscal years	\$ <u>236,215</u>

(12) Deferred Compensation Plan

Through the State of Mississippi, VHPB employees are offered a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their income until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All assets and income of the plan are held for the exclusive benefit of participants and their beneficiaries.

(13) Pension Plan

General Information about the Pension Plan

Plan Description

VHPB contributes to the Public Employees' Retirement System of Mississippi ("PERS"), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq. (1972, as amended) and may be amended only by the Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS, 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2016 and 2015

(13) Pension Plan (Continued)

Benefits Provided

Membership in PERS is a condition of employment granted upon hiring for qualifying VHPB employees. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment ("COLA") payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions

PERS members are required to contribute 9.00% of their annual covered salary and VHPB is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2016 and 2015, was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature.

A summary of VHPB's contribution to PERS for the fiscal years ended June 30, 2016 and 2015, follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Employer contribution	\$ <u>121,280</u>	<u>114,724</u>	<u>6,556</u>
Contribution rate	<u>15.75%</u>	<u>15.75%</u>	<u>-%</u>

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2016 and 2015

(13) Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016 and 2015, VHPB reported a liability for its proportionate share of the net pension liability of the plan as follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Net pension liability	\$ <u>1,802,251</u>	<u>1,377,804</u>	<u>424,447</u>

The net pension liability for fiscal year 2016 was measured as of June 30, 2015, and the net pension liability for fiscal year 2015 was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those respective dates. VHPB's proportion of the net pension liability was based on the ratio of VHPB's actual contributions to the pension plan relative to the total actual contributions of all participating entities for the plan fiscal year.

VHPB's change in proportionate share of the plan's net pension liability for fiscal year 2016 follows:

<u>Description</u>	<u>Measurement Date</u>	<u>Percentage</u>
Proportionate share	6/30/15	0.011659%
Proportionate share	6/30/14	<u>0.011351%</u>
Increase (decrease)		<u>0.000308%</u>

VHPB's change in proportionate share of the plan's net pension liability for fiscal year 2015 follows:

<u>Description</u>	<u>Measurement Date</u>	<u>Percentage</u>
Proportionate share	6/30/14	0.011351%
Proportionate share	6/30/13	<u>0.009679%</u>
Increase (decrease)		<u>0.001672%</u>

For the years ended June 30, 2016 and 2015, VHPB recognized pension expense of \$242,480 and \$153,778, respectively.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2016 and 2015

(13) Pension Plan (Continued)

At June 30, 2016 and 2015, VHPB reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>2016</u>		<u>2015</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 155,258	-	-	-
Changes in proportion and differences between VHPB contributions and proportionate share of contributions	136,428	-	170,382	-
VHPB contributions subsequent to the measurement date	121,280	-	114,724	-
Differences between expected and actual experience	41,499	-	21,494	-
Net difference between projected and actual earnings on plan investments	-	44,340	-	199,722
Totals	\$ 454,465	44,340	306,600	199,722

The above deferred outflows of resources and deferred inflows of resources represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

The \$121,280 reported in fiscal year 2016 as deferred outflows of resources related to pensions resulting from VHPB contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 122,779
2018	107,595
2019	32,109
2020	<u>26,362</u>
Total	\$ 288,845

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2016 and 2015

(13) Pension Plan (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

<u>Description</u>	<u>Assumptions</u>
Inflation	3.00%
Salary increases	3.75 - 19.00%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2016, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Broad	34.00%	5.20%
International equity	19.00	5.00
Emerging markets equity	8.00	5.45
Fixed income	20.00	0.25
Real assets	10.00	4.00
Private equity	8.00	6.15
Cash	<u>1.00</u>	(0.50)
Total	<u>100.00%</u>	

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2016 and 2015

(13) Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent, a decrease of 0.25 percentage points since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00 percent) and that employer contributions will be made at the current employer contribution rate (15.75 percent). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of VHPB's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents VHPB's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what VHPB's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

<u>Description</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
VHPB's proportionate share of the net pension liability	\$ <u>2,375,533</u>	<u>1,802,251</u>	<u>1,326,535</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2016 and 2015

(14) Operating Leases

VHPB has entered into various operating leases which contain cancellation provisions and are subject to annual appropriations. Expenditures under operating leases for the years ended June 30, 2016 and 2015, totaled approximately \$9,768 and \$10,491, respectively.

(15) Risk Management

VHPB is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees while performing VHPB business; and acts of God. Losses are generally covered by commercial insurance, with the exception of the self-insured risks discussed below. There have been no significant reductions in coverage and settlement amounts did not exceed insurance coverage for the year ended June 30, 2016.

Workers' Compensation Insurance – VHPB is a participant in the Mississippi State Agencies Self-Insured Workers' Compensation Pool (the "Pool"). The Pool is a self-insured workers' compensation pool organized under Mississippi Code Ann. 1972 section 71-3-5 and is in compliance with the Mississippi Workers' Compensation Commission. Participants are jointly and severally liable for obligations of the Fund. The possibility of additional liability exists, but that amount, if any, is considered to be minimal.

Tort Claims – VHPB is a participant in the Mississippi Tort Claims Fund ("the Fund") which is under the administration of the Mississippi Tort Claims Board. The Fund is a self-insured tort (civil suit) claims fund organized under Mississippi Code Ann. 1972 section 11-46-17. Participation for State agencies is mandatory. The Fund is self-insured for claims up to the statutory limits. Under sections 11-46-15 and 11-46-17 of the Mississippi Code Ann. 1972, no court is allowed to issue a verdict in excess of certain statutory limits that increased to \$500,000 on July 1, 2002, or if the entity carries excess liability insurance, in excess of the additional coverage. The participants of the Fund are jointly and severally liable for the obligations of the Fund. The possibility of additional liability exists, but that amount, if any, cannot be determined.

Unemployment Insurance – VHPB is a participant in the Unemployment Insurance Fund ("the Fund") which is under the administration of the Department of Finance and Administration, Office of Insurance. The Fund is a self-insured unemployment insurance fund organized under Mississippi Code Ann. 1972 section 71-5-355. Participation for State agencies is mandatory. The Fund is self-insured for all unemployment claims filed with the Mississippi Employment Security Commission by former State employees. The participants of the Fund are jointly and severally liable for the obligations of the Fund. The possibility of additional liability exists, but that amount, if any, cannot be determined.

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Notes to Financial Statements
June 30, 2016 and 2015

(16) Subsequent Events

Management has evaluated subsequent events through the date of the auditors' report, the date on which the financial statements were available to be issued. During the period from the end of the year through this date, no other circumstances occurred that required recognition or disclosure in these financial statements.

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
 Required Supplementary Information
 Public Employees' Retirement System of Mississippi -
 Schedule of VHPB's Proportionate Share of the Net Pension Liability
 Last Ten Fiscal Years¹

	<u>2016</u>	<u>2015</u>	<u>2014</u>
VHPB's proportion of the net pension liability	0.011659%	0.011351%	0.009679%
VHPB's proportionate share of the net pension liability	\$ 1,802,251	1,377,804	1,341,116
VHPB's covered-employee payroll	\$ 688,444	662,295	580,571
VHPB's proportionate share of the net pension liability as a percentage of its covered-employee payroll	261.79%	208.03%	231.00%
Plan fiduciary net position as a percentage of the total pension liability	61.70%	67.21%	61.02%

¹GASB 68 was implemented in fiscal year 2015, information is not available to present a full ten years. VHPB has presented information for the years in which it is available.

Note: The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the year prior to the fiscal year presented.

The notes to required supplementary information are an integral part of this schedule.

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
 Required Supplementary Information
 Public Employees' Retirement System of Mississippi -
 Schedule of VHPB's Contributions
 Last Ten Fiscal Years¹

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 114,724	109,244	84,361
Contributions in relation to the statutorily required contribution	<u>114,724</u>	<u>109,244</u>	<u>84,361</u>
Annual contribution deficiency (excess)	\$ <u>-</u>	<u>-</u>	<u>-</u>
VHPB's covered-employee payroll	\$ <u>688,444</u>	<u>662,295</u>	<u>580,571</u>
Contributions as a percentage of covered-employee payroll	<u>16.66%</u>	<u>16.49%</u>	<u>14.53%</u>

¹GASB 68 was implemented in fiscal year 2015, information is not available to present a full ten years. VHPB has presented information for the years in which it is available.

Note: The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the year prior to the fiscal year presented.

The notes to required supplementary information are an integral part of this schedule.

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Notes to Required Supplementary Information
June 30, 2016 and 2015

(1) Changes of Assumptions

In 2015 and later, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates, and service retirement rates were also adjusted to more closely reflect actual experience.

In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and from 8.00% to 7.75%, respectively.

(2) Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the schedule of VHPB's contributions are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported (2015 employer contributions are developed from the 2013 valuation). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	32.2 years
Asset valuation method	5-year smoothed market
Price inflation	3.50 percent
Salary increase	4.25 percent to 19.50 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Combining Statements of Net Position
June 30, 2016

	<u>Fund 3734</u> <u>Operating</u>	<u>Fund 3735</u> <u>Escrow</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined</u>
<u>ASSETS</u>					
Current assets:					
Equity in internal investment pool	\$ 71,438,132	1,891,506	73,329,638	-	73,329,638
Cash in banks	27,908	-	27,908	-	27,908
Receivables, net:					
Advances to cafeteria plan	568	-	568	-	568
Interest receivable on loans	501,193	-	501,193	-	501,193
Due from other funds	13,804	4,040	17,844	(3,674)	14,170
Loans receivable, current portion	5,659,630	-	5,659,630	-	5,659,630
Prepaid expenses	21,727	-	21,727	-	21,727
Total current assets	77,662,962	1,895,546	79,558,508	(3,674)	79,554,834
Loans receivable, net of current portion	150,072,256	-	150,072,256	-	150,072,256
Capital assets, net	1,329,983	-	1,329,983	-	1,329,983
Total assets	229,065,201	1,895,546	230,960,747	(3,674)	230,957,073
<u>DEFERRED OUTFLOWS OF RESOURCES</u>					
Deferred outflows related to net pension liability	454,465	-	454,465	-	454,465
<u>LIABILITIES</u>					
Current liabilities:					
Warrants payable	172,686	121,574	294,260	-	294,260
Accounts payable and accruals	8,109	-	8,109	-	8,109
Deposits and funds held for others	20,545	1,773,972	1,794,517	-	1,794,517
Due to other funds	3,674	-	3,674	(3,674)	-
Due to other governments	99	-	99	-	99
Total current liabilities	205,113	1,895,546	2,100,659	(3,674)	2,096,985
Noncurrent liabilities:					
Compensated absences	74,248	-	74,248	-	74,248
Net pension liability	1,802,251	-	1,802,251	-	1,802,251
Total noncurrent liabilities	1,876,499	-	1,876,499	-	1,876,499
Total liabilities	2,081,612	1,895,546	3,977,158	(3,674)	3,973,484
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Deferred inflows related to net pension liability	44,340	-	44,340	-	44,340
<u>NET POSITION</u>					
Invested in capital assets	1,329,983	-	1,329,983	-	1,329,983
Unrestricted	226,063,731	-	226,063,731	-	226,063,731
Total net position	\$ 227,393,714	-	227,393,714	-	227,393,714

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Combining Statements of Net Position
June 30, 2015

	Fund 3734 Operating	Fund 3735 Escrow	Total	Eliminations	Combined
<u>ASSETS</u>					
Current assets:					
Equity in internal investment pool	\$ 63,680,447	1,986,557	65,667,004	-	65,667,004
Cash in banks	43,471	-	43,471	-	43,471
Receivables, net:					
Advances to cafeteria plan	3,602	-	3,602	-	3,602
Interest receivable on loans	540,608	-	540,608	-	540,608
Due from other funds	42,186	30,952	73,138	(29,649)	43,489
Due from other governments	82,124	-	82,124	-	82,124
Loans receivable, current portion	5,615,704	-	5,615,704	-	5,615,704
Prepaid expenses	25,261	-	25,261	-	25,261
Total current assets	70,033,403	2,017,509	72,050,912	(29,649)	72,021,263
Loans receivable, net of current portion	152,846,518	-	152,846,518	-	152,846,518
Capital assets, net	1,371,619	-	1,371,619	-	1,371,619
Total assets	224,251,540	2,017,509	226,269,049	(29,649)	226,239,400
<u>DEFERRED OUTFLOWS OF RESOURCES</u>					
Deferred outflows related to net pension liability	306,600	-	306,600	-	306,600
<u>LIABILITIES</u>					
Current liabilities:					
Warrants payable	766,354	149,582	915,936	-	915,936
Accounts payable and accruals	14,031	1,225	15,256	-	15,256
Deposits and funds held for others	40,917	1,866,702	1,907,619	-	1,907,619
Due to other funds	30,152	-	30,152	(29,649)	503
Due to other governments	145	-	145	-	145
Unearned revenue - rental income	7,874	-	7,874	-	7,874
Total current liabilities	859,473	2,017,509	2,876,982	(29,649)	2,847,333
Noncurrent liabilities:					
Compensated absences	62,296	-	62,296	-	62,296
Net pension liability	1,377,804	-	1,377,804	-	1,377,804
Total noncurrent liabilities	1,440,100	-	1,440,100	-	1,440,100
Total liabilities	2,299,573	2,017,509	4,317,082	(29,649)	4,287,433
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Deferred inflows related to net pension liability	199,722	-	199,722	-	199,722
<u>NET POSITION</u>					
Invested in capital assets	1,371,619	-	1,371,619	-	1,371,619
Unrestricted	220,687,226	-	220,687,226	-	220,687,226
Total net position	\$ 222,058,845	-	222,058,845	-	222,058,845

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Combining Statements of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2016

	<u>Fund 3734</u> <u>Operating</u>	<u>Fund 3735</u> <u>Escrow</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined</u>
Operating revenues:					
Interest on loans	\$ 6,123,085	-	6,123,085	-	6,123,085
Fees	174,245	-	174,245	-	174,245
Rentals	47,243	-	47,243	-	47,243
Other	1,897	-	1,897	-	1,897
	<u>6,346,470</u>	<u>-</u>	<u>6,346,470</u>	<u>-</u>	<u>6,346,470</u>
Total operating revenues					
	<u>6,346,470</u>	<u>-</u>	<u>6,346,470</u>	<u>-</u>	<u>6,346,470</u>
Operating expenses:					
General and administrative	1,183,513	-	1,183,513	-	1,183,513
Contractual services	366,108	-	366,108	-	366,108
Commodities	18,221	-	18,221	-	18,221
Depreciation	41,636	-	41,636	-	41,636
Loss on foreclosed loans	54,230	-	54,230	-	54,230
	<u>1,663,708</u>	<u>-</u>	<u>1,663,708</u>	<u>-</u>	<u>1,663,708</u>
Total operating expenses					
	<u>1,663,708</u>	<u>-</u>	<u>1,663,708</u>	<u>-</u>	<u>1,663,708</u>
Operating income	4,682,762	-	4,682,762	-	4,682,762
Nonoperating revenues -					
Interest and other investment income, net	652,107	-	652,107	-	652,107
	<u>652,107</u>	<u>-</u>	<u>652,107</u>	<u>-</u>	<u>652,107</u>
Changes in net position	5,334,869	-	5,334,869	-	5,334,869
	<u>5,334,869</u>	<u>-</u>	<u>5,334,869</u>	<u>-</u>	<u>5,334,869</u>
Total net position, beginning	222,058,845	-	222,058,845	-	222,058,845
	<u>222,058,845</u>	<u>-</u>	<u>222,058,845</u>	<u>-</u>	<u>222,058,845</u>
Total net position, ending	\$ 227,393,714	-	227,393,714	-	227,393,714
	<u>227,393,714</u>	<u>-</u>	<u>227,393,714</u>	<u>-</u>	<u>227,393,714</u>

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Combining Statements of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2015

	<u>Fund 3734</u> <u>Operating</u>	<u>Fund 3735</u> <u>Escrow</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined</u>
Operating revenues:					
Interest on loans	\$ 6,430,724	-	6,430,724	-	6,430,724
Fees	183,140	-	183,140	-	183,140
Rentals	47,243	-	47,243	-	47,243
Other	1,865	-	1,865	-	1,865
Total operating revenues	<u>6,662,972</u>	<u>-</u>	<u>6,662,972</u>	<u>-</u>	<u>6,662,972</u>
Operating expenses:					
General and administrative	1,048,067	-	1,048,067	-	1,048,067
Contractual services	478,186	-	478,186	-	478,186
Commodities	40,782	-	40,782	-	40,782
Depreciation	42,144	-	42,144	-	42,144
Loss on foreclosed loans	44,333	-	44,333	-	44,333
Total operating expenses	<u>1,653,512</u>	<u>-</u>	<u>1,653,512</u>	<u>-</u>	<u>1,653,512</u>
Operating income	5,009,460	-	5,009,460	-	5,009,460
Nonoperating revenues -					
Interest and other investment income, net	560,554	-	560,554	-	560,554
Income before transfers	5,570,014	-	5,570,014	-	5,570,014
Transfers -					
Transfer to Bureau of Building, Grounds and Real Property Management	(30,000)	-	(30,000)	-	(30,000)
Changes in net position	5,540,014	-	5,540,014	-	5,540,014
Total net position, beginning	<u>216,518,831</u>	<u>-</u>	<u>216,518,831</u>	<u>-</u>	<u>216,518,831</u>
Total net position, ending	\$ <u>222,058,845</u>	<u>-</u>	<u>222,058,845</u>	<u>-</u>	<u>222,058,845</u>

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Combining Statements of Cash Flows
For the Year Ended June 30, 2016

	<u>Fund 3734</u>	<u>Fund 3735</u>	<u>Total</u>
	<u>Operating</u>	<u>Escrow</u>	
Cash flows from operating activities:			
Cash receipts from borrowers - miscellaneous	\$ 295,739	-	295,739
Cash payments to suppliers for goods and services	(465,293)	-	(465,293)
Cash payments to employees for services	(1,030,021)	-	(1,030,021)
Other operating cash receipts (disbursements), net	4,931	(95,051)	(90,120)
Principal and interest received on loans	23,923,791	-	23,923,791
Issuance of loans	<u>(15,667,513)</u>	<u>-</u>	<u>(15,667,513)</u>
 Net cash provided by (used in) operating activities	 7,061,634	 (95,051)	 6,966,583
 Cash flows from investing activities -			
Interest and other investment income - nonoperating	<u>680,488</u>	<u>-</u>	<u>680,488</u>
 Net increase (decrease) in cash and cash equivalents	 7,742,122	 (95,051)	 7,647,071
 Cash and cash equivalents at beginning of year	 <u>63,723,918</u>	 <u>1,986,557</u>	 <u>65,710,475</u>
 Cash and cash equivalents at end of year	 \$ <u>71,466,040</u>	 <u>1,891,506</u>	 <u>73,357,546</u>
 Classified on the balance sheet as follows:			
Equity in internal investment pool	\$ 71,438,132	1,891,506	73,329,638
Cash in banks	<u>27,908</u>	<u>-</u>	<u>27,908</u>
 Cash and cash equivalents at end of year	 \$ <u>71,466,040</u>	 <u>1,891,506</u>	 <u>73,357,546</u>

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Combining Statements of Cash Flows
For the Year Ended June 30, 2016

	<u>Fund 3734</u> <u>Operating</u>	<u>Fund 3735</u> <u>Escrow</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:					
Operating income	\$ 4,682,762	-	4,682,762	-	4,682,762
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Depreciation	41,636	-	41,636	-	41,636
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:					
Advances to cafeteria plan	3,034	-	3,034	-	3,034
Interest receivable on loans	39,415	-	39,415	-	39,415
Due from other funds - related to operations	-	26,913	26,913	(25,975)	938
Due from other governments	82,124	-	82,124	-	82,124
Loans receivable	2,730,336	-	2,730,336	-	2,730,336
Prepaid expenses	3,534	-	3,534	-	3,534
Warrants payable	(593,667)	(28,009)	(621,676)	-	(621,676)
Accounts payable and accruals	6,030	(1,225)	4,805	-	4,805
Deposits and funds held for others	(20,372)	(92,730)	(113,102)	-	(113,102)
Due to other funds	(26,478)	-	(26,478)	25,975	(503)
Due to other governments	(46)	-	(46)	-	(46)
Unearned revenue	(7,874)	-	(7,874)	-	(7,874)
Net pension liability and related deferred outflows/inflows of resources	121,200	-	121,200	-	121,200
Total adjustments	2,378,872	(95,051)	2,283,821	-	2,283,821
Net cash provided by (used in) operating activities	\$ 7,061,634	(95,051)	6,966,583	-	6,966,583

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**

Combining Statements of Cash Flows
For the Year Ended June 30, 2015

	<u>Fund 3734</u>	<u>Fund 3735</u>	<u>Total</u>
	<u>Operating</u>	<u>Escrow</u>	
Cash flows from operating activities:			
Cash receipts from borrowers - miscellaneous	\$ 196,132	-	196,132
Cash payments to suppliers for goods and services	(517,574)	-	(517,574)
Cash payments to employees for services	(972,232)	-	(972,232)
Other operating cash receipts (disbursements), net	2,239	319,490	321,729
Principal and interest received on loans	28,314,569	-	28,314,569
Issuance of loans	<u>(25,042,424)</u>	<u>-</u>	<u>(25,042,424)</u>
 Net cash provided by operating activities	 1,980,710	 319,490	 2,300,200
 Cash flows from noncapital financing activities -			
Transfer to Bureau of Building, Grounds, and Real Property Management	(30,000)	-	(30,000)
 Cash flows from capital and related financing activities -			
Acquisition of capital assets	(18,285)	-	(18,285)
 Cash flows from investing activities -			
Interest and other investment income - nonoperating	<u>561,649</u>	<u>-</u>	<u>561,649</u>
 Net increase in cash and cash equivalents	 2,494,074	 319,490	 2,813,564
 Cash and cash equivalents at beginning of year	 <u>61,229,844</u>	 <u>1,667,067</u>	 <u>62,896,911</u>
 Cash and cash equivalents at end of year	 \$ <u>63,723,918</u>	 <u>1,986,557</u>	 <u>65,710,475</u>
 Classified on the balance sheet as follows:			
Equity in internal investment pool	\$ 63,680,447	1,986,557	65,667,004
Cash in banks	<u>43,471</u>	<u>-</u>	<u>43,471</u>
 Cash and cash equivalents at end of year	 \$ <u>63,723,918</u>	 <u>1,986,557</u>	 <u>65,710,475</u>

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Combining Statements of Cash Flows
For the Year Ended June 30, 2015

	<u>Fund 3734</u> <u>Operating</u>	<u>Fund 3735</u> <u>Escrow</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ <u>5,009,460</u>	<u>-</u>	<u>5,009,460</u>	<u>-</u>	<u>5,009,460</u>
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	42,144	-	42,144	-	42,144
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:					
Advances to cafeteria plan	375	-	375	-	375
Interest receivable on loans	5,450	-	5,450	-	5,450
Due from other funds - related to operations	-	113	113	(246)	(133)
Due from other governments	(82,124)	-	(82,124)	-	(82,124)
Receivable from sale of property	40,000	-	40,000	-	40,000
Loans receivable	(3,123,835)	-	(3,123,835)	-	(3,123,835)
Prepaid expenses	2,818	-	2,818	-	2,818
Warrants payable	27,618	(17,502)	10,116	-	10,116
Accounts payable and accruals	4,369	1,225	5,594	-	5,594
Deposits and funds held for others	7,163	335,654	342,817	-	342,817
Due to other funds	257	-	257	246	503
Due to other governments	87	-	87	-	87
Unearned revenue	7,874	-	7,874	-	7,874
Net pension liability and related deferred outflows/inflows of resources	<u>39,054</u>	<u>-</u>	<u>39,054</u>	<u>-</u>	<u>39,054</u>
Total adjustments	<u>(3,028,750)</u>	<u>319,490</u>	<u>(2,709,260)</u>	<u>-</u>	<u>(2,709,260)</u>
Net cash provided by operating activities	\$ <u>1,980,710</u>	<u>319,490</u>	<u>2,300,200</u>	<u>-</u>	<u>2,300,200</u>

SCHEDULE 6

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**

Capital Assets

June 30, 2016 and 2015

<u>Description</u>	<u>Cost</u>						
	<u>6/30/2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>6/30/2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>6/30/2016</u>
Land	\$ 226,000	-	-	226,000	-	-	226,000
Buildings and improvements	1,583,400	-	-	1,583,400	-	-	1,583,400
Furniture and equipment	127,956	18,285	-	146,241	-	-	146,241
Vehicles	28,121	-	-	28,121	-	-	28,121
Total cost	\$ 1,965,477	18,285	-	1,983,762	-	-	1,983,762

<u>Description</u>	<u>Accumulated Depreciation</u>						
	<u>6/30/2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>6/30/2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>6/30/2016</u>
Land	\$ -	-	-	-	-	-	-
Buildings and improvements	451,269	31,668	-	482,937	31,668	-	514,605
Furniture and equipment	93,421	10,476	-	103,897	9,968	-	113,865
Vehicles	25,309	-	-	25,309	-	-	25,309
Total accumulated depreciation	\$ 569,999	42,144	-	612,143	41,636	-	653,779
Capital assets, net				\$ 1,371,619			1,329,983

<u>Capital Assets, Net</u>				<u>Increase</u>
	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>(Decrease)</u>	
Land	\$ 226,000	226,000	-	
Buildings and improvements	1,068,795	1,100,463	(31,668)	
Furniture and equipment	32,376	42,344	(9,968)	
Vehicles	2,812	2,812	-	
	\$ 1,329,983	1,371,619	(41,636)	

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

June 30, 2016 and 2015

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**The Board of Directors
State of Mississippi
Veterans' Home Purchase Board:**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of State of Mississippi Veterans' Home Purchase Board ("VHPB"), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise VHPB's basic financial statements and have issued our report thereon dated October 24, 2016.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered VHPB's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of VHPB's internal control. Accordingly, we do not express an opinion on the effectiveness of VHPB's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did

***The Board of Directors
State of Mississippi
Veterans' Home Purchase Board
Page two***

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether VHPB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of VHPB's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering VHPB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brigade, Sanders & O'Neil, Ltd.

Jackson, Mississippi
October 24, 2016