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

Financial Statements  
and Supplementary Information

June 30, 2017 and 2016  
(With Independent Auditors' Report Thereon)

**STATE OF MISSISSIPPI  
VETERANS' HOME PURCHASE BOARD**  
June 30, 2017 and 2016

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**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, 2017 and 2016, 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.

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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, 2017 and 2016, 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, 2017 and 2016, 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 9, and the schedules of VHPB's proportionate share of the net pension liability and contributions on pages 33 through 35, 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.

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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 31, 2017, 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.

Jackson, Mississippi  
October 31, 2017

*Brigade, Sanders : O'Neil, H*

**STATE OF MISSISSIPPI  
VETERANS' HOME PURCHASE BOARD**  
Management's Discussion and Analysis  
Years Ended June 30, 2017 and 2016

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, 2017 and 2016. 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 \$232,506,552 at June 30, 2017, \$227,393,714 at June 30, 2016, and \$222,058,845 at June 30, 2015.
- VHPB's total net position at June 30, 2017, increased \$5,112,838 (2.25%) as compared to total net position at June 30, 2016. This increase is attributable to the interest earned on loans. Total net position at June 30, 2016, increased \$5,334,869 (2.40%) as compared to total net position at June 30, 2015.
- During the current fiscal year, VHPB's operating expenses totaled \$1,663,390, a decrease of \$318, as compared to the prior year expenses of \$1,663,708. Operating expenses for the year ended June 30, 2016 increased \$10,196 compared to the year ended June 30, 2015.
- VHPB's operating revenues for the current fiscal year totaled \$5,936,270 as compared to the prior year revenues of \$6,346,470. This was a decrease of \$410,200, 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, 2016 decreased \$316,502 compared to the year ended June 30, 2015.

• At June 30, 2017, VHPB had available loan funds of	\$ 78,840,929
Less: Loans that have been approved but have not closed	(6,232,111)
Loans awaiting board approval	<u>(2,115,515)</u>
<b>Net available loan funds at June 30, 2017</b>	<b>\$ <u>70,493,303</u></b>

**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, 2017 and 2016

**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 as supplementary information 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 \$232,506,552 at June 30, 2017, \$227,393,714 at June 30, 2016, and \$222,058,845 at June 30, 2015.

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, 2017 and 2016

**OVERALL FINANCIAL ANALYSIS (CONTINUED)**

The following table presents VHPB's net position at June 30, 2017, compared to June 30, 2016 and 2015.

<u>Description</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 87,672,341	79,554,834	72,021,263
Loans receivable, net of current portion	147,431,614	150,072,256	152,846,518
Capital assets, net	<u>1,288,855</u>	<u>1,329,983</u>	<u>1,371,619</u>
<b>Total assets</b>	<u>236,392,810</u>	<u>230,957,073</u>	<u>226,239,400</u>
<b>Deferred outflows of resources</b>	<u>539,806</u>	<u>454,465</u>	<u>306,600</u>
Current liabilities	2,199,451	2,096,985	2,847,333
Noncurrent liabilities	<u>2,220,900</u>	<u>1,876,499</u>	<u>1,440,100</u>
<b>Total liabilities</b>	<u>4,420,351</u>	<u>3,973,484</u>	<u>4,287,433</u>
<b>Deferred inflows of resources</b>	<u>5,713</u>	<u>44,340</u>	<u>199,722</u>
<b>Net position:</b>			
Invested in capital assets	1,288,855	1,329,983	1,371,619
Unrestricted	<u>231,217,697</u>	<u>226,063,731</u>	<u>220,687,226</u>
<b>Total net position</b>	<u>\$ 232,506,552</u>	<u>227,393,714</u>	<u>222,058,845</u>

**Changes in net position** - VHPB's total operating revenues for the year ended June 30, 2017, decreased \$410,200 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, 2016, decreased \$316,502 compared to the year ended June 30, 2015.

The interest rates on mortgage loans did not change during the year ended June 30, 2017, as indicated below. The number of outstanding mortgage loans decreased by 66 loans during fiscal year 2017.

During fiscal year 2017, the interest rate on loans maturing in 15 years or less remained at 2.75%.

During fiscal year 2017, 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, 2017 and 2016

**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, 2017, VHPB received \$23,236,100 in principal and interest payments on outstanding loans and issued \$14,591,581 in new loans. At June 30, 2017, VHPB had \$78,840,929 in available loans funds of which \$6,232,111 was committed to loans awaiting closing dates. Additionally, there was \$2,115,515 in loans awaiting approval from VHPB's board of directors.

The following table presents VHPB's operating activities for the fiscal year ended June 30, 2017, compared to the fiscal years ended June 30, 2016 and 2015.

<u>Description</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 5,936,270	6,346,470	6,662,972
Operating expenses	<u>(1,663,390)</u>	<u>(1,663,708)</u>	<u>(1,653,512)</u>
<b>Operating income</b>	<b>4,272,880</b>	<b>4,682,762</b>	<b>5,009,460</b>
<b>Nonoperating revenues (expenses) -</b>			
Interest and other investment income, net	<u>839,958</u>	<u>652,107</u>	<u>560,554</u>
<b>Income before transfers</b>	<b>5,112,838</b>	<b>5,334,869</b>	<b>5,570,014</b>
Transfer to Bureau of Building, Grounds, and Real Property Management	<u>-</u>	<u>-</u>	<u>(30,000)</u>
<b>Changes in net position</b>	<b>\$ <u>5,112,838</u></b>	<b><u>5,334,869</u></b>	<b><u>5,540,014</u></b>

**CAPITAL ASSETS**

VHPB's investment in capital assets, net of accumulated depreciation, as of June 30, 2017, was \$1,288,855. During the year ended June 30, 2017, VHPB did not have any capital asset acquisitions or disposals.

A summary of VHPB's capital assets, net of accumulated depreciation, at June 30, 2017, compared to June 30, 2016 and 2015, follows:

<u>Description</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ 226,000	226,000	226,000
Buildings and improvements	1,037,127	1,068,795	1,100,463
Furniture and equipment	22,916	32,376	42,344
Vehicles	<u>2,812</u>	<u>2,812</u>	<u>2,812</u>
<b>Net capital assets</b>	<b>\$ <u>1,288,855</u></b>	<b><u>1,329,983</u></b>	<b><u>1,371,619</u></b>

**STATE OF MISSISSIPPI  
VETERANS' HOME PURCHASE BOARD**  
Management's Discussion and Analysis  
Years Ended June 30, 2017 and 2016

**CAPITAL ASSETS (CONTINUED)**

VHPB had no capital related debt or capital related deferred inflows/outflows at June 30, 2017 or 2016.

Additional information on VHPB's capital assets can be found in note 6 on page 22 of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Due to the mortgage market interest rates over the past few years being much lower than the historical average, many of the loans in VHPB's portfolio have refinanced elsewhere, lowering the total loan volume serviced by VHPB. This, in addition to a reduced demand for home loans, stricter underwriting guidelines, and a poor economy, has caused the loan portfolio not to grow to the extent originally planned. However, the loan portfolio has continued to grow at an acceptable rate. Over the past 24 months, the economy has shown improvements that have been reflected with a higher loan demand and higher private sector interest rates. This and a large number of returning Veterans from foreign wars have strongly increased the demand for our services. Because of the aforementioned, it is our opinion that over the next several years our loan portfolio should grow at a respectable pace. If interest rates remain at these historically low rates for an extended period, the rate of return on our loan 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 two more years.

Another factor that will 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 275,000 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 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.

**STATE OF MISSISSIPPI  
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Years Ended June 30, 2017 and 2016

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

Additionally, a factor which may affect VHPB is a change in 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.

Another factor which may affect VHPB is the condition of the economy of the state and nation. A dramatic change in interest rates, building materials, labor costs, or land costs could affect the ability of veterans to qualify for a loan program.

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 loan 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 loan 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.

**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, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents:			
Equity in internal investment pool	\$ 81,527,324	73,329,638	8,197,686
Cash in banks	29,933	27,908	2,025
Total cash and cash equivalents	<u>81,557,257</u>	<u>73,357,546</u>	<u>8,199,711</u>
Receivables, net:			
Advances to cafeteria plan	3,516	568	2,948
Interest receivable on loans	475,052	501,193	(26,141)
Due from other funds	29,915	14,170	15,745
Loans receivable, current portion	5,586,410	5,659,630	(73,220)
Total receivables, net	<u>6,094,893</u>	<u>6,175,561</u>	<u>(80,668)</u>
Prepaid expenses	<u>20,191</u>	<u>21,727</u>	<u>(1,536)</u>
<b>Total current assets</b>	<b>87,672,341</b>	<b>79,554,834</b>	<b>8,117,507</b>
Loans receivable, net of current portion	147,431,614	150,072,256	(2,640,642)
Capital assets, net	<u>1,288,855</u>	<u>1,329,983</u>	<u>(41,128)</u>
<b>Total assets</b>	<b><u>236,392,810</u></b>	<b><u>230,957,073</u></b>	<b><u>5,435,737</u></b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Deferred outflows related to net pension liability	<u>539,806</u>	<u>454,465</u>	<u>85,341</u>
<b><u>LIABILITIES</u></b>			
<b>Current liabilities:</b>			
Warrants payable	386,304	294,260	92,044
Accounts payable and accruals	15,654	8,109	7,545
Deposits and funds held for others	1,793,038	1,794,517	(1,479)
Due to other governments	4,455	99	4,356
<b>Total current liabilities</b>	<b><u>2,199,451</u></b>	<b><u>2,096,985</u></b>	<b><u>102,466</u></b>
<b>Noncurrent liabilities:</b>			
Compensated absences	70,791	74,248	(3,457)
Net pension liability	<u>2,150,109</u>	<u>1,802,251</u>	<u>347,858</u>
<b>Total noncurrent liabilities</b>	<b><u>2,220,900</u></b>	<b><u>1,876,499</u></b>	<b><u>344,401</u></b>
<b>Total liabilities</b>	<b><u>4,420,351</u></b>	<b><u>3,973,484</u></b>	<b><u>446,867</u></b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Deferred inflows related to net pension liability	<u>5,713</u>	<u>44,340</u>	<u>(38,627)</u>
<b><u>NET POSITION</u></b>			
Invested in capital assets	1,288,855	1,329,983	(41,128)
Unrestricted	<u>231,217,697</u>	<u>226,063,731</u>	<u>5,153,966</u>
<b>Total net position</b>	<b>\$ <u>232,506,552</u></b>	<b><u>227,393,714</u></b>	<b><u>5,112,838</u></b>

*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, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
<b>Operating revenues:</b>			
Interest on loans	\$ 5,796,647	6,123,085	(326,438)
Fees	138,190	174,245	(36,055)
Rentals	-	47,243	(47,243)
Other	<u>1,433</u>	<u>1,897</u>	<u>(464)</u>
<b>Total operating revenues</b>	<u>5,936,270</u>	<u>6,346,470</u>	<u>(410,200)</u>
<b>Operating expenses:</b>			
General and administrative	1,319,602	1,183,513	136,089
Contractual services	276,280	366,108	(89,828)
Commodities	26,380	18,221	8,159
Depreciation	41,128	41,636	(508)
Loss on foreclosed loans	<u>-</u>	<u>54,230</u>	<u>(54,230)</u>
<b>Total operating expenses</b>	<u>1,663,390</u>	<u>1,663,708</u>	<u>(318)</u>
<b>Operating income</b>	4,272,880	4,682,762	(409,882)
<b>Nonoperating revenues -</b>			
Interest and other investment income, net	<u>839,958</u>	<u>652,107</u>	<u>187,851</u>
<b>Changes in net position</b>	5,112,838	5,334,869	(222,031)
<b>Total net position, beginning</b>	<u>227,393,714</u>	<u>222,058,845</u>	<u>5,334,869</u>
<b>Total net position, ending</b>	\$ <u>232,506,552</u>	<u>227,393,714</u>	<u>5,112,838</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Cash receipts from borrowers - miscellaneous	\$ 138,190	295,739
Cash payments to suppliers for goods and services	(302,104)	(465,293)
Cash payments to employees for services	(1,072,956)	(1,030,021)
Other operating cash receipts (disbursements), net	(32,468)	(90,120)
Principal and interest received on loans	23,236,100	23,923,791
Issuance of loans	<u>(14,591,581)</u>	<u>(15,667,513)</u>
<b>Net cash provided by operating activities</b>	7,375,181	6,966,583
<b>Cash flows from investing activities -</b>		
Interest and other investment income - nonoperating	<u>824,530</u>	<u>680,488</u>
<b>Net increase in cash and cash equivalents</b>	8,199,711	7,647,071
<b>Cash and cash equivalents at beginning of year</b>	<u>73,357,546</u>	<u>65,710,475</u>
<b>Cash and cash equivalents at end of year</b>	\$ <u>81,557,257</u>	<u>73,357,546</u>
<b>Classified on the balance sheet as follows:</b>		
Equity in internal investment pool	\$ 81,527,324	73,329,638
Cash in banks	<u>29,933</u>	<u>27,908</u>
<b>Cash and cash equivalents at end of year</b>	\$ <u>81,557,257</u>	<u>73,357,546</u>



STATE OF MISSISSIPPI  
VETERANS' HOME PURCHASE BOARD  
Statements of Cash Flows  
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ <u>4,272,880</u>	<u>4,682,762</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	41,128	41,636
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Advances to cafeteria plan	(2,948)	3,034
Interest receivable on loans	26,141	39,415
Due from other funds - related to operations	(316)	938
Due from other governments	-	82,124
Loans receivable	2,713,862	2,730,336
Prepaid expenses	1,536	3,534
Warrants payable	92,044	(621,676)
Accounts payable and accruals	4,088	4,805
Deposits and funds held for others	(1,480)	(113,102)
Due to other funds	-	(503)
Due to other governments	4,356	(46)
Unearned revenue	-	(7,874)
Net pension liability and related deferred outflows/inflows of resources	<u>223,890</u>	<u>121,200</u>
Total adjustments	<u>3,102,301</u>	<u>2,283,821</u>
<b>Net cash provided by operating activities</b>	<b>\$ <u>7,375,181</u></b>	<b><u>6,966,583</u></b>

*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, 2017 and 2016

**(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, 2017 and 2016

**(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, 2017) 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, 2017 and 2016

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

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

Inasmuch as 94.18% 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, 2017 and 2016

(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 11 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 11 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, 2017 and 2016.

**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, 2017 and 2016

(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 2016 financial statement amounts have been reclassified to conform with the 2017 financial statement presentation. Such reclassifications had no material effect on VHPB's 2016 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 2017, VHPB implemented the following new standards issued by GASB:

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68 and No.73*, effective for financial statement reporting periods beginning after June 15, 2016 – this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of this statement did not have an impact on VHPB's basic financial statements.

**STATE OF MISSISSIPPI  
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Notes to Financial Statements  
June 30, 2017 and 2016

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

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

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.

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.

(q) **Advertising**

Advertising costs are expensed as incurred. Advertising expense totaled \$5,736 and \$2,440 for the years ended June 30, 2017 and 2016, respectively.

**STATE OF MISSISSIPPI  
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Notes to Financial Statements  
June 30, 2017 and 2016

(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, 2017, the State's total pooled investments for State agencies were approximately \$3.4 billion, and the average remaining life of the securities invested was 1,363 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, 2017, was \$29,933 and the corresponding bank balances were \$650,756. The entire bank balance was covered by federal depository insurance or collateralized in accordance with state law.

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:

<b><u>Description</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>Increase (Decrease)</u></b>
Due from the State Treasurer's Office internal investment pool	\$ <u>29,915</u>	<u>14,170</u>	<u>15,745</u>



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(5) **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, 2017, 94.18% 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.

A summary of loans receivable follows:

<b><u>Description</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>Increase (Decrease)</u></b>
Guaranteed by the United States Veterans' Administration	\$ 144,115,484	146,639,460	(2,523,976)
Non-guaranteed loans	<u>8,902,540</u>	<u>9,092,426</u>	<u>(189,886)</u>
<b>Total loans receivable</b>	153,018,024	155,731,886	(2,713,862)
Less loans receivable, current portion	<u>5,586,410</u>	<u>5,659,630</u>	<u>(73,220)</u>
<b>Loans receivable, net of current portion</b>	<b>\$ <u>147,431,614</u></b>	<b><u>150,072,256</u></b>	<b><u>(2,640,642)</u></b>

Loans mature at various intervals through June 30, 2047. The scheduled principal payments receivable on loans maturing in subsequent years are as follows:

<b><u>Year Ending June 30,</u></b>	<b><u>Amount</u></b>
2018	\$ 5,586,410
2019	5,728,863
2020	5,805,968
2021	5,874,120
2022	5,929,329
Thereafter	<u>124,093,334</u>
<b>Total maturities</b>	<b>\$ <u>153,018,024</u></b>

As of June 30, 2017, VHPB had 31 loans with outstanding balances totaling \$3,027,268 in delinquent status. Management of VHPB believes that sufficient remedies are available under the loan agreements to prevent any material losses on these loans.

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

Notes to Financial Statements  
June 30, 2017 and 2016

**(5) Loans Receivable (Continued)**

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, 2017, there were no loans outstanding in this group.

**(6) Capital Assets**

A summary of capital asset activity for the year ended June 30, 2017, follows:

<u>Description</u>	<u>2016 Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>2017 Balance</u>
Capital assets, not being depreciated -				
Land	\$ 226,000	-	-	226,000
Capital assets being depreciated:				
Buildings and improvements	1,583,400	-	-	1,583,400
Furniture and equipment	146,241	-	-	146,241
Vehicles	28,121	-	-	28,121
Total capital assets being depreciated	1,757,762	-	-	1,757,762
Less accumulated depreciation for:				
Buildings and improvements	514,605	31,668	-	546,273
Furniture and equipment	113,865	9,460	-	123,325
Vehicles	25,309	-	-	25,309
Total accumulated depreciation	653,779	41,128	-	694,907
Total capital assets being depreciated, net	1,103,983	(41,128)	-	1,062,855
<b>Total capital assets, net</b>	<b>\$ 1,329,983</b>	<b>(41,128)</b>	<b>-</b>	<b>1,288,855</b>

**STATE OF MISSISSIPPI  
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Notes to Financial Statements  
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**(6) Capital Assets (Continued)**

A summary of capital asset activity for the year ended June 30, 2016, 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	1,583,400	-	-	1,583,400
Furniture and equipment	146,241	-	-	146,241
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	482,937	31,668	-	514,605
Furniture and equipment	103,897	9,968	-	113,865
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>
<b>Total capital assets, net</b>	<b>\$ <u>1,371,619</u></b>	<b><u>(41,636)</u></b>	<b><u>-</u></b>	<b><u>1,329,983</u></b>

**(7) Due to Other Governments**

A summary of amounts due to other governments follows:

<u>Description</u>	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
United States Veterans' Administration	\$ 4,455	-	4,455
City of Pearl, Mississippi	<u>-</u>	<u>99</u>	<u>(99)</u>
<b>Total due to other governments</b>	<b>\$ <u>4,455</u></b>	<b><u>99</u></b>	<b><u>4,356</u></b>

**STATE OF MISSISSIPPI  
VETERANS' HOME PURCHASE BOARD**  
Notes to Financial Statements  
June 30, 2017 and 2016

**(8) Long-Term Liabilities**

A summary of changes in the long-term liabilities during the year ended June 30, 2017, follows:

<u>Description</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>	<u>Due Within One Year</u>
Compensated absences	\$ 79,377	46,952	(43,117)	83,212	12,421
Net pension liability	<u>1,802,251</u>	<u>469,138</u>	<u>(121,280)</u>	<u>2,150,109</u>	<u>-</u>
<b>Long-term liabilities</b>	<b>\$ <u>1,881,628</u></b>	<b><u>516,090</u></b>	<b><u>(164,397)</u></b>	<b><u>2,233,321</u></b>	<b><u>12,421</u></b>

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>	<u>-</u>
<b>Long-term liabilities</b>	<b>\$ <u>1,445,087</u></b>	<b><u>583,906</u></b>	<b><u>(147,365)</u></b>	<b><u>1,881,628</u></b>	<b><u>5,129</u></b>

**(9) Rental Income**

VHPB provides office space to the State Veterans' Affairs Board ("SVAB"). Prior to July, 2016, SVAB leased this office space from VHPB. The term of the lease was to run until SVAB had paid its pro rata share of the total building construction cost, at which time the lease would become negotiable. SVAB paid a monthly rental fee of \$3,937, which covered SVAB's pro rata share of the costs of utilities and maintenance and construction costs. The payment was 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 at any time exceed the rental fee, then the fee would have been increased to cover SVAB's share of the cost of utilities and maintenance, plus \$250 each month to be applied to the construction cost.

2016 Mississippi Senate Bill No. 2362 regarding the Mississippi Budget Transparency and Simplification Act of 2016 provided, amongst other things, that from and after July 1, 2016, no State agency shall charge rent to another State agency. Therefore, there is no rental income for fiscal year 2017. This was reversed in 2017 Mississippi Senate Bill 2001. Mississippi House Bill No. 1491 for VHPB's fiscal year 2018 appropriation gives VHPB authority to charge and collect rent from SVAB regarding this office space.

**STATE OF MISSISSIPPI  
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Notes to Financial Statements  
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**(9) Rental Income (Continued)**

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

<u>Description</u>	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
Land	\$ 226,000	226,000	-
Cost of building	1,583,400	1,583,400	-
Accumulated depreciation	<u>(546,273)</u>	<u>(514,605)</u>	<u>(31,668)</u>
<b>Net book value of property</b>	<b>\$ <u>1,263,127</u></b>	<b><u>1,294,795</u></b>	<b><u>(31,668)</u></b>
<b>Depreciation expense</b>	<b>\$ <u>31,668</u></b>	<b><u>31,668</u></b>	<b><u>-</u></b>

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>
2018	\$ 47,243
2019	47,243
2020	47,243
2021	47,243
2022	<u>47,243</u>
<b>Total minimum future rentals for the next five fiscal years</b>	<b>\$ <u>236,215</u></b>

**(10) 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.

**STATE OF MISSISSIPPI  
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Notes to Financial Statements

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**(11) 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.

***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 the employers are required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2017 and 2016, was 15.75% of annual covered payroll. The

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**(11) Pension Plan (Continued)**

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, 2017 and 2016, follows:

<u>Description</u>	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
Employer contribution	\$ <u>126,726</u>	<u>121,280</u>	<u>5,446</u>
Contribution rate	<u>15.75%</u>	<u>15.75%</u>	

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

At June 30, 2017 and 2016, VHPB reported a liability for its proportionate share of the net pension liability of the plan as follows:

<u>Description</u>	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
Net pension liability	\$ <u>2,150,109</u>	<u>1,802,251</u>	<u>347,858</u>

The net pension liability for fiscal year 2017 was measured as of June 30, 2016, and the net pension liability for fiscal year 2016 was measured as of June 30, 2015. 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 2017 follows:

<u>Description</u>	<u>Measurement Date</u>	<u>Percentage</u>
Proportionate share	6/30/16	0.012037%
Proportionate share	6/30/15	0.011659%
<b>Increase (decrease)</b>		<u>0.000378%</u>

**STATE OF MISSISSIPPI  
VETERANS' HOME PURCHASE BOARD**  
Notes to Financial Statements  
June 30, 2017 and 2016

**(11) Pension Plan (Continued)**

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	0.011351%
<b>Increase (decrease)</b>		<u>0.000308%</u>

For the years ended June 30, 2017 and 2016, VHPB recognized pension expense of \$350,616 and \$242,480, respectively.

At June 30, 2017 and 2016, VHPB reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>2017</u>		<u>2016</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	\$ 98,178	5,713	155,258	-
Changes in proportion and differences between VHPB contributions and proportionate share of contributions	106,730	-	136,428	-
VHPB contributions subsequent to the measurement date	126,726	-	121,280	-
Differences between expected and actual experience	59,041	-	41,499	-
Net difference between projected and actual earnings on plan investments	<u>149,131</u>	<u>-</u>	<u>-</u>	<u>44,340</u>
<b>Totals</b>	<b>\$ <u>539,806</u></b>	<b><u>5,713</u></b>	<b><u>454,465</u></b>	<b><u>44,340</u></b>



**STATE OF MISSISSIPPI  
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Notes to Financial Statements  
June 30, 2017 and 2016

**(11) Pension Plan (Continued)**

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 \$126,726 reported in fiscal year 2017 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, 2018.

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>
2018	\$ 178,860
2019	103,374
2020	82,658
2021	<u>42,475</u>
<b>Total</b>	<b>\$ <u>407,367</u></b>

***Actuarial Assumptions***

The total pension liability in the June 30, 2016, 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

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

Notes to Financial Statements

June 30, 2017 and 2016

**(11) Pension Plan (Continued)**

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, 2016, 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, 2016, 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)
<b>Total</b>	<u>100.00%</u>	

***Discount Rate***

The discount rate used to measure the total pension liability was 7.75 percent. 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.

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

Notes to Financial Statements

June 30, 2017 and 2016

**(11) Pension Plan (Continued)**

***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>2,756,921</u>	<u>2,150,109</u>	<u>1,646,651</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.

**(12) 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, 2017 and 2016, totaled approximately \$8,341 and \$9,768, respectively.

**(13) 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, 2017.

***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

**STATE OF MISSISSIPPI**  
**VETERANS' HOME PURCHASE BOARD**  
Notes to Financial Statements  
June 30, 2017 and 2016

**(13) Risk Management (Continued)**

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.

**(14) 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 Years<sup>1</sup>

	<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2015</b></u>
VHPB's proportion of the net pension liability	0.012037%	0.011659%	0.011351%
VHPB's proportionate share of the net pension liability	\$ 2,150,109	1,802,251	1,377,804
VHPB's covered payroll	\$ 770,032	728,407	693,611
VHPB's proportionate share of the net pension liability as a percentage of its covered payroll	279.22%	247.42%	198.64%
Plan fiduciary net position as a percentage of the total pension liability	57.47%	61.70%	67.21%

<sup>1</sup>GASB 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.*

**SCHEDULE 2**

**STATE OF MISSISSIPPI  
VETERANS' HOME PURCHASE BOARD**  
Required Supplementary Information  
Public Employees' Retirement System of Mississippi -  
Schedule of VHPB's Contributions  
Last Ten Fiscal Years<sup>1</sup>

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 126,726	121,280	114,724
Contributions in relation to the statutorily required contribution	<u>126,726</u>	<u>121,280</u>	<u>114,724</u>
Annual contribution deficiency (excess)	\$ <u>-</u>	<u>-</u>	<u>-</u>
VHPB's covered payroll	\$ <u>804,609</u>	<u>770,032</u>	<u>728,407</u>
Contributions as a percentage of covered payroll	<u>15.75%</u>	<u>15.75%</u>	<u>15.75%</u>

<sup>1</sup>GASB 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.

*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, 2017 and 2016

**(1) Changes of Assumptions**

In plan year 2016, the assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

In plan year 2015, 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. The 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) Changes in Benefit Provisions**

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

**(3) 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 (2016 employer contributions are developed from the 2014 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	29.2 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, 2017

	<u>Fund 3734</u> <u>Operating</u>	<u>Fund 3735</u> <u>Escrow</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined</u>
<b><u>ASSETS</u></b>					
<b>Current assets:</b>					
Equity in internal investment pool	\$ 79,666,771	1,860,553	81,527,324	-	81,527,324
Cash in banks	29,933	-	29,933	-	29,933
Receivables, net:					
Advances to cafeteria plan	3,516	-	3,516	-	3,516
Interest receivable on loans	475,052	-	475,052	-	475,052
Due from other funds	29,233	18,067	47,300	(17,385)	29,915
Loans receivable, current portion	5,586,410	-	5,586,410	-	5,586,410
Prepaid expenses	20,191	-	20,191	-	20,191
<b>Total current assets</b>	<b>85,811,106</b>	<b>1,878,620</b>	<b>87,689,726</b>	<b>(17,385)</b>	<b>87,672,341</b>
<b>Loans receivable, net of current portion</b>	<b>147,431,614</b>	<b>-</b>	<b>147,431,614</b>	<b>-</b>	<b>147,431,614</b>
<b>Capital assets, net</b>	<b>1,288,855</b>	<b>-</b>	<b>1,288,855</b>	<b>-</b>	<b>1,288,855</b>
<b>Total assets</b>	<b>234,531,575</b>	<b>1,878,620</b>	<b>236,410,195</b>	<b>(17,385)</b>	<b>236,392,810</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>					
Deferred outflows related to net pension liability	539,806	-	539,806	-	539,806
<b><u>LIABILITIES</u></b>					
<b>Current liabilities:</b>					
Warrants payable	275,285	111,019	386,304	-	386,304
Accounts payable and accruals	15,654	-	15,654	-	15,654
Deposits and funds held for others	25,437	1,767,601	1,793,038	-	1,793,038
Due to other funds	17,385	-	17,385	(17,385)	-
Due to other governments	4,455	-	4,455	-	4,455
<b>Total current liabilities</b>	<b>338,216</b>	<b>1,878,620</b>	<b>2,216,836</b>	<b>(17,385)</b>	<b>2,199,451</b>
<b>Noncurrent liabilities:</b>					
Compensated absences	70,791	-	70,791	-	70,791
Net pension liability	2,150,109	-	2,150,109	-	2,150,109
<b>Total noncurrent liabilities</b>	<b>2,220,900</b>	<b>-</b>	<b>2,220,900</b>	<b>-</b>	<b>2,220,900</b>
<b>Total liabilities</b>	<b>2,559,116</b>	<b>1,878,620</b>	<b>4,437,736</b>	<b>(17,385)</b>	<b>4,420,351</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>					
Deferred inflows related to net pension liability	5,713	-	5,713	-	5,713
<b><u>NET POSITION</u></b>					
Invested in capital assets	1,288,855	-	1,288,855	-	1,288,855
Unrestricted	231,217,697	-	231,217,697	-	231,217,697
<b>Total net position</b>	<b>\$ 232,506,552</b>	<b>-</b>	<b>232,506,552</b>	<b>-</b>	<b>232,506,552</b>



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>
<b><u>ASSETS</u></b>					
<b>Current assets:</b>					
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
<b>Total current assets</b>	<b>77,662,962</b>	<b>1,895,546</b>	<b>79,558,508</b>	<b>(3,674)</b>	<b>79,554,834</b>
<b>Loans receivable, net of current portion</b>	<b>150,072,256</b>	<b>-</b>	<b>150,072,256</b>	<b>-</b>	<b>150,072,256</b>
<b>Capital assets, net</b>	<b>1,329,983</b>	<b>-</b>	<b>1,329,983</b>	<b>-</b>	<b>1,329,983</b>
<b>Total assets</b>	<b>229,065,201</b>	<b>1,895,546</b>	<b>230,960,747</b>	<b>(3,674)</b>	<b>230,957,073</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>					
Deferred outflows related to net pension liability	454,465	-	454,465	-	454,465
<b><u>LIABILITIES</u></b>					
<b>Current liabilities:</b>					
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
<b>Total current liabilities</b>	<b>205,113</b>	<b>1,895,546</b>	<b>2,100,659</b>	<b>(3,674)</b>	<b>2,096,985</b>
<b>Noncurrent liabilities:</b>					
Compensated absences	74,248	-	74,248	-	74,248
Net pension liability	1,802,251	-	1,802,251	-	1,802,251
<b>Total noncurrent liabilities</b>	<b>1,876,499</b>	<b>-</b>	<b>1,876,499</b>	<b>-</b>	<b>1,876,499</b>
<b>Total liabilities</b>	<b>2,081,612</b>	<b>1,895,546</b>	<b>3,977,158</b>	<b>(3,674)</b>	<b>3,973,484</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>					
Deferred inflows related to net pension liability	44,340	-	44,340	-	44,340
<b><u>NET POSITION</u></b>					
Invested in capital assets	1,329,983	-	1,329,983	-	1,329,983
Unrestricted	226,063,731	-	226,063,731	-	226,063,731
<b>Total net position</b>	<b>\$ 227,393,714</b>	<b>-</b>	<b>227,393,714</b>	<b>-</b>	<b>227,393,714</b>

**STATE OF MISSISSIPPI**  
**VETERANS' HOME PURCHASE BOARD**  
Combining Statements of Revenues, Expenses, and Changes in Net Position  
For the Year Ended June 30, 2017

	<u>Fund 3734</u> <u>Operating</u>	<u>Fund 3735</u> <u>Escrow</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined</u>
<b>Operating revenues:</b>					
Interest on loans	\$ 5,796,647	-	5,796,647	-	5,796,647
Fees	138,190	-	138,190	-	138,190
Other	1,433	-	1,433	-	1,433
<b>Total operating revenues</b>	<u>5,936,270</u>	<u>-</u>	<u>5,936,270</u>	<u>-</u>	<u>5,936,270</u>
<b>Operating expenses:</b>					
General and administrative	1,319,602	-	1,319,602	-	1,319,602
Contractual services	276,280	-	276,280	-	276,280
Commodities	26,380	-	26,380	-	26,380
Depreciation	41,128	-	41,128	-	41,128
<b>Total operating expenses</b>	<u>1,663,390</u>	<u>-</u>	<u>1,663,390</u>	<u>-</u>	<u>1,663,390</u>
<b>Operating income</b>	4,272,880	-	4,272,880	-	4,272,880
<b>Nonoperating revenues -</b>					
Interest and other investment income, net	<u>839,958</u>	<u>-</u>	<u>839,958</u>	<u>-</u>	<u>839,958</u>
<b>Changes in net position</b>	5,112,838	-	5,112,838	-	5,112,838
<b>Total net position, beginning</b>	<u>227,393,714</u>	<u>-</u>	<u>227,393,714</u>	<u>-</u>	<u>227,393,714</u>
<b>Total net position, ending</b>	\$ <u>232,506,552</u>	<u>-</u>	<u>232,506,552</u>	<u>-</u>	<u>232,506,552</u>

**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>
<b>Operating revenues:</b>					
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
<b>Total operating revenues</b>	<u>6,346,470</u>	<u>-</u>	<u>6,346,470</u>	<u>-</u>	<u>6,346,470</u>
<b>Operating expenses:</b>					
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
<b>Total operating expenses</b>	<u>1,663,708</u>	<u>-</u>	<u>1,663,708</u>	<u>-</u>	<u>1,663,708</u>
<b>Operating income</b>	4,682,762	-	4,682,762	-	4,682,762
<b>Nonoperating revenues -</b>					
Interest and other investment income, net	652,107	-	652,107	-	652,107
<b>Changes in net position</b>	5,334,869	-	5,334,869	-	5,334,869
<b>Total net position, beginning</b>	<u>222,058,845</u>	<u>-</u>	<u>222,058,845</u>	<u>-</u>	<u>222,058,845</u>
<b>Total net position, ending</b>	\$ <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 Cash Flows  
For the Year Ended June 30, 2017

	<b><u>Fund 3734</u></b> <b><u>Operating</u></b>	<b><u>Fund 3735</u></b> <b><u>Escrow</u></b>	<b><u>Total</u></b>
<b>Cash flows from operating activities:</b>			
Cash receipts from borrowers - miscellaneous	\$ 138,190	-	138,190
Cash payments to suppliers for goods and services	(302,104)	-	(302,104)
Cash payments to employees for services	(1,072,956)	-	(1,072,956)
Other operating cash receipts (disbursements), net	(1,515)	(30,953)	(32,468)
Principal and interest received on loans	23,236,100	-	23,236,100
Issuance of loans	<u>(14,591,581)</u>	<u>-</u>	<u>(14,591,581)</u>
<b>Net cash provided by (used in) operating activities</b>	7,406,134	(30,953)	7,375,181
<b>Cash flows from investing activities -</b>			
Interest and other investment income - nonoperating	<u>824,530</u>	<u>-</u>	<u>824,530</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	8,230,664	(30,953)	8,199,711
<b>Cash and cash equivalents at beginning of year</b>	<u>71,466,040</u>	<u>1,891,506</u>	<u>73,357,546</u>
<b>Cash and cash equivalents at end of year</b>	\$ <u>79,696,704</u>	<u>1,860,553</u>	<u>81,557,257</u>
<b>Classified on the balance sheet as follows:</b>			
Equity in internal investment pool	\$ 79,666,771	1,860,553	81,527,324
Cash in banks	<u>29,933</u>	<u>-</u>	<u>29,933</u>
<b>Cash and cash equivalents at end of year</b>	\$ <u>79,696,704</u>	<u>1,860,553</u>	<u>81,557,257</u>

**STATE OF MISSISSIPPI**  
**VETERANS' HOME PURCHASE BOARD**  
Combining Statements of Cash Flows  
For the Year Ended June 30, 2017

	<u>Fund 3734</u> <u>Operating</u>	<u>Fund 3735</u> <u>Escrow</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined</u>
<b>Reconciliation of operating income to net cash provided by (used in) operating activities:</b>					
Operating income	\$ 4,272,880	-	4,272,880	-	4,272,880
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Depreciation	41,128	-	41,128	-	41,128
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:					
Advances to cafeteria plan	(2,948)	-	(2,948)	-	(2,948)
Interest receivable on loans	26,141	-	26,141	-	26,141
Due from other funds - related to operations	-	(14,027)	(14,027)	13,711	(316)
Due from other governments	-	-	-	-	-
Loans receivable	2,713,862	-	2,713,862	-	2,713,862
Prepaid expenses	1,536	-	1,536	-	1,536
Warrants payable	102,599	(10,555)	92,044	-	92,044
Accounts payable and accruals	4,088	-	4,088	-	4,088
Deposits and funds held for others	4,891	(6,371)	(1,480)	-	(1,480)
Due to other funds	13,711	-	13,711	(13,711)	-
Due to other governments	4,356	-	4,356	-	4,356
Unearned revenue	-	-	-	-	-
Net pension liability and related deferred outflows/inflows of resources	223,890	-	223,890	-	223,890
Total adjustments	3,133,254	(30,953)	3,102,301	-	3,102,301
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 7,406,134</b>	<b>(30,953)</b>	<b>7,375,181</b>	<b>-</b>	<b>7,375,181</b>

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

	<b><u>Fund 3734</u></b> <b><u>Operating</u></b>	<b><u>Fund 3735</u></b> <b><u>Escrow</u></b>	<b><u>Total</u></b>
<b>Cash flows from operating activities:</b>			
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>
<b>Net cash provided by (used in) operating activities</b>	<b>7,061,634</b>	<b>(95,051)</b>	<b>6,966,583</b>
<b>Cash flows from investing activities -</b>			
Interest and other investment income - nonoperating	<u>680,488</u>	<u>-</u>	<u>680,488</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>7,742,122</b>	<b>(95,051)</b>	<b>7,647,071</b>
<b>Cash and cash equivalents at beginning of year</b>	<b><u>63,723,918</u></b>	<b><u>1,986,557</u></b>	<b><u>65,710,475</u></b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ <u>71,466,040</u></b>	<b><u>1,891,506</u></b>	<b><u>73,357,546</u></b>
<b>Classified on the balance sheet as follows:</b>			
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>
<b>Cash and cash equivalents at end of year</b>	<b>\$ <u>71,466,040</u></b>	<b><u>1,891,506</u></b>	<b><u>73,357,546</u></b>

**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>
<b>Reconciliation of operating income to net cash provided by (used in) operating activities:</b>					
Operating income	\$ 4,682,762	-	4,682,762	-	4,682,762
<b>Adjustments to reconcile operating income to net cash provided by (used in) operating activities:</b>					
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
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 7,061,634</b>	<b>(95,051)</b>	<b>6,966,583</b>	<b>-</b>	<b>6,966,583</b>

**SCHEDULE 6**

**STATE OF MISSISSIPPI  
VETERANS' HOME PURCHASE BOARD**  
Capital Assets  
June 30, 2017 and 2016

<u>Description</u>	<u>Cost</u>						
	<u>6/30/2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>6/30/2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>6/30/2017</u>
Land	\$ 226,000	-	-	226,000	-	-	226,000
Buildings and improvements	1,583,400	-	-	1,583,400	-	-	1,583,400
Furniture and equipment	146,241	-	-	146,241	-	-	146,241
Vehicles	28,121	-	-	28,121	-	-	28,121
<b>Total cost</b>	<b>\$ 1,983,762</b>	<b>-</b>	<b>-</b>	<b>1,983,762</b>	<b>-</b>	<b>-</b>	<b>1,983,762</b>

<u>Description</u>	<u>Accumulated Depreciation</u>						
	<u>6/30/2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>6/30/2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>6/30/2017</u>
Land	\$ -	-	-	-	-	-	-
Buildings and improvements	482,937	31,668	-	514,605	31,668	-	546,273
Furniture and equipment	103,897	9,968	-	113,865	9,460	-	123,325
Vehicles	<u>25,309</u>	<u>-</u>	<u>-</u>	<u>25,309</u>	<u>-</u>	<u>-</u>	<u>25,309</u>
<b>Total accumulated depreciation</b>	<b>\$ <u>612,143</u></b>	<b><u>41,636</u></b>	<b><u>-</u></b>	<b><u>653,779</u></b>	<b><u>41,128</u></b>	<b><u>-</u></b>	<b><u>694,907</u></b>
<b>Capital assets, net</b>			<b>\$</b>	<b><u>1,329,983</u></b>			<b><u>1,288,855</u></b>

<u>Capital Assets, Net</u>			
	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>Increase (Decrease)</u>
Land	\$ 226,000	226,000	-
Buildings and improvements	1,037,127	1,068,795	(31,668)
Furniture and equipment	22,916	32,376	(9,460)
Vehicles	2,812	2,812	-
	<b>\$ 1,288,855</b>	<b>1,329,983</b>	<b>(41,128)</b>



**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, 2017

**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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise VHPB's basic financial statements and have issued our report thereon dated October 31, 2017.

**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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses (Finding 2017-001) that we consider to be significant deficiencies.

### **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*.

### **VHPB's Response to Findings**

VHPB's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. VHPB's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

Jackson, Mississippi  
October 31, 2017

*By: [Signature] : D. H. H. H.*

**STATE OF MISSISSIPPI  
VETERANS' HOME PURCHASE BOARD**  
Schedule of Findings and Responses  
June 30, 2017

**Finding 2017-001**

Finding Type: Significant Deficiency

Criteria

With respect to the mortgage loans, VHPB is responsible for administering escrow accounts on behalf of each borrower to pay property taxes and homeowners insurance premiums. VHPB determines the borrower's monthly escrow deposits needed to maintain the account through an annual escrow analysis. The escrow subsidiary ledger balance should reconcile to the general ledger escrow activity.

Statement of Condition

There are numerous reconciling items related to the escrow subsidiary ledger reconciliation with the general ledger escrow activity. These reconciling items relate to numerous factors, including, amongst other things, (1) errors made in posting disbursements to the escrow subsidiary ledger, (2) errors made in requesting warrants which are posted to the general ledger, (3) disbursements are posted to the subsidiary ledger prior to requesting a warrant for payment or posting in the general ledger, (4) numerous cancelled warrants, and (5) numerous adjustments to the subsidiary ledger. It was further noted that there were late payments of taxes and insurance past the due dates and accounts for which an annual escrow analysis was not performed.

Cause of Condition

Lack of daily reconciliation of the escrow subsidiary ledger activity with the general ledger escrow activity and follow-up/correction of discrepancies. Lack of review to ensure annual escrow analysis are performed on all escrow accounts.

Effect of Condition

In addition to causing reconciling difficulties, these reconciling items result in inaccurate calculations of monthly borrower deposits needed to maintain the escrow account and misstated Annual Tax and Interest Statements. The lack of an annual escrow analysis lends to the escrow account being under or over funded. Late payments result in late fees/notices.

**STATE OF MISSISSIPPI  
VETERANS' HOME PURCHASE BOARD**  
Schedule of Findings and Responses  
June 30, 2017

Recommendation

VHPB should implement policies and procedures to ensure daily reconciliations are made of the escrow subsidiary ledger activity with the general ledger escrow activity. Discrepancies should be immediately investigated and necessary corrections made timely. Schedules can be utilized to track property tax and homeowner insurance to ensure timely payment and to track annual escrow analysis to ensure inclusion of all accounts.

Agency Response

VHPB agrees with the finding. VHPB will implement a policy and procedure that requires each member of the Servicing Department that orders payments for escrow items to perform a daily reconciliation of the escrow subsidiary ledger ("ILS") activity with the general ledger escrow ("Magic System") activity. This reconciliation will be accomplished by obtaining the "Daily Disbursement Report" from ILS and reconciling it with the "Check Register" from the Magic System. Each day the reconciliation documents will be submitted to the Supervisor of the Servicing Department for his review and use in authorizing the release of warrants in the Magic System. The Supervisor of the Servicing Department will track warrants ordered through the Magic System with the warrants received from DFA on a daily basis. The Supervisor will receive the warrants and compare to the daily reconciliation as received with emphasis on warrants not received.

Property taxes (Ad Valorem): The Supervisor will check the master loan list ("Account Summary per County" report from ILS) to ensure that the taxes for that county have been paid. This process will include checking each account for status of exemption or taxes due. Also, this process will include balancing the general ledger escrow warrant (one per county) with the county master list for amounts due.

Hazard Insurance: (Paying in a timely manner) We have instructed the Insurance Servicing Vendor to provide VHPB with a 60-day billing notice in order to provide VHPB adequate time to order and mail premium payments so due dates are met.

Escrow Analysis: There is a report available in ILS that lists accounts in need of an analysis. It will be VHPB's policy to run this report every month to determine accounts that are in need of analysis. Accounts in foreclosure, currently delinquent, and in bankruptcy are to be handled separately on a case by case basis as the ILS system will not analyze these accounts while in the herein stated status.