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

Financial Statements
and Supplementary Information

June 30, 2018
(With Independent Auditors' Report Thereon)

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
June 30, 2018

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VETERANS' HOME PURCHASE BOARD**
June 30, 2018

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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 year ended June 30, 2018, 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 audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

*The Board of Directors
State of Mississippi
Veterans' Home Purchase Board
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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, 2018, and the changes in its financial position and its cash flows for the year 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, 2018, and the changes in its financial position or its cash flows for the year 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.

As discussed in note 1, in fiscal year ended June 30, 2018, VHPB implemented GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 and OPEB liabilities and contributions on pages 38 through 43, 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*The Board of Directors
State of Mississippi
Veterans' Home Purchase Board
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Other Supplementary Information

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

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 December 3, 2018, 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.

By: [Signature], Senior: [Signature], H.H.

Jackson, Mississippi
December 3, 2018

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Management's Discussion and Analysis
Year Ended June 30, 2018

This section of State of Mississippi Veterans' Home Purchase Board's ("VHPB") annual financial report presents management's discussion and analysis of VHPB's financial performance during the fiscal year ended June 30, 2018. 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 \$237,382,716 at June 30, 2018, and \$232,506,552 at June 30, 2017.
- VHPB's total net position at June 30, 2018, increased \$4,876,164 (2.10%), including a prior period adjustment of \$(114,429), as compared to total net position at June 30, 2017. This increase is attributable to the interest earned on loans less the prior period adjustment discussed in note 14.
- During the current fiscal year, VHPB's operating expenses totaled \$1,818,178, an increase of \$154,788, as compared to the prior year expenses of \$1,663,390. This increase is largely attributable to the increase in general and administrative expenses and contractual services expenses.
- VHPB's operating revenues for the current fiscal year totaled \$5,698,689 as compared to the prior year revenues of \$5,936,270. This was a decrease of \$237,581, primarily due to the decrease in loans made by VHPB over the past few years combined with the low interest rates.

• At June 30, 2018, VHPB had available loan funds of	\$ 80,878,333
Less: Loans that have been approved but have not closed	(6,901,214)
Loans awaiting board approval	<u>(3,262,238)</u>
Net available loan funds at June 30, 2018	\$ <u>70,714,881</u>

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces VHPB's financial statements. The financial statements present solely the financial position and results of operations and cash flows of VHPB and include: (1) Statement of Net Position, (2) Statement of Revenues, Expenses and Changes in Net Position, (3) Statement 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
Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Position - The statement of net position includes 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.

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

Statement of Cash Flows - The statement of cash flows details the cash received and expended by VHPB during the fiscal year presented. This statement presents 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 \$237,382,716 at June 30, 2018, and \$232,506,552 at June 30, 2017.

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
Year Ended June 30, 2018

OVERALL FINANCIAL ANALYSIS (CONTINUED)

The following table presents VHPB's net position at June 30, 2018, compared to June 30, 2017. GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was implemented in fiscal year 2018. Prior year amounts were not restated to reflect the implementation of GASB 75.

<u>Description</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 90,637,275	87,672,341
Loans receivable, net of current portion	150,300,280	147,431,614
Capital assets, net	<u>1,253,314</u>	<u>1,288,855</u>
Total assets	<u>242,190,869</u>	<u>236,392,810</u>
 Deferred outflows of resources	 <u>312,293</u>	 <u>539,806</u>
 Current liabilities	 2,784,690	 2,199,451
Noncurrent liabilities	<u>2,280,310</u>	<u>2,220,900</u>
Total liabilities	<u>5,065,000</u>	<u>4,420,351</u>
 Deferred inflows of resources	 <u>55,446</u>	 <u>5,713</u>
 Net position:		
Invested in capital assets	1,253,314	1,288,855
Unrestricted	<u>236,129,402</u>	<u>231,217,697</u>
Total net position	\$ <u>237,382,716</u>	<u>232,506,552</u>

Changes in net position - VHPB's total operating revenues for the year ended June 30, 2018, decreased \$237,581 from the previous year, largely due to a decrease in revenues from interest earned on outstanding mortgage loans.

The interest rates on mortgage loans did not change for loans made during the year ended June 30, 2018, as indicated below. The number of outstanding mortgage loans decreased by 27 loans during fiscal year 2018.

During fiscal year 2018, the interest rate on loans maturing in 15 years or less remained at 2.75%.

During fiscal year 2018, the interest rate on loans maturing from 16 to 30 years remained at 3.00%.

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, 2018, VHPB received

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Management's Discussion and Analysis
Year Ended June 30, 2018

OVERALL FINANCIAL ANALYSIS (CONTINUED)

\$22,056,997 in principal and interest payments on outstanding loans and issued \$19,136,575 in new loans. At June 30, 2018, VHPB had \$80,878,333 in available loans funds of which \$6,901,214 was committed to loans awaiting closing dates. Additionally, there was \$3,262,238 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, 2018, compared to the fiscal year ended June 30, 2017. Prior year amounts were not restated to reflect the implementation of GASB 75.

<u>Description</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 5,698,689	5,936,270
Operating expenses	<u>(1,818,178)</u>	<u>(1,663,390)</u>
Operating income	3,880,511	4,272,880
Nonoperating revenues (expenses) -		
Interest and other investment income, net	<u>1,062,839</u>	<u>839,958</u>
Income before transfers	4,943,350	5,112,838
Transfers from the Veterans' Affairs Board for rent	<u>47,243</u>	<u>-</u>
Changes in net position	\$ <u>4,990,593</u>	<u>5,112,838</u>

CAPITAL ASSETS

VHPB's investment in capital assets, net of accumulated depreciation, as of June 30, 2018, was \$1,253,314. During the year ended June 30, 2018, VHPB did not have any capital asset acquisitions and disposed of a fully depreciated computer server.

A summary of VHPB's capital assets, net of accumulated depreciation, at June 30, 2018, compared to June 30, 2017, follows:

<u>Description</u>	<u>2018</u>	<u>2017</u>
Land	\$ 226,000	226,000
Buildings and improvements	1,005,459	1,037,127
Furniture and equipment	19,043	22,916
Vehicles	<u>2,812</u>	<u>2,812</u>
Net capital assets	\$ <u>1,253,314</u>	<u>1,288,855</u>

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Management's Discussion and Analysis
Year Ended June 30, 2018

CAPITAL ASSETS (CONTINUED)

VHPB had no capital related debt or capital related deferred inflows/outflows at June 30, 2018.

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 to grow at a much slower rate. However, the loan portfolio has continued to grow at an acceptable rate. Over the past 30 months, the economy has shown improvement that has reflected itself with an acceptable loan demand and slightly higher private sector interest rates. This and a large number of returning Veterans from foreign wars are predicted to generate an 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. Even though we have seen a rise in private sector mortgage rates of more than one percent recently, our Board of Directors has seen fit to only increase the Agency's rates by one quarter of a percent (effective for fiscal year 2019) providing a true advantage to Mississippi Veterans while increasing the return to the Agency. If interest rates were to remain at these historically low rates for an extended period, the rate of return on our loan portfolio over time would continue to be lower than in the 1990s and early 2000s. It is our opinion, however, that the interest rates rise slowly as the economy continues to improve. This opinion is predicated on the current Federal Monetary Policies not changing and the Government continuing to reduce restrictive lending regulations.

Another factor that has had and will continue to have an effect on VHPB is the Biggert Waters Flood Insurance Reform Act of 2012. This has increased 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. The Federal Government is currently addressing this mater.

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.

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Management's Discussion and Analysis
Year Ended June 30, 2018

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

A factor that may affect VHPB is a change in U. S. Department of Veterans Affairs policies, rules, and regulations. Such changes, if any, may require changes 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.

Because of the increasing threats of a cyberattack on the data maintained by VHPB, we have taken appropriate steps to protect our data, systems and confidential information. These steps have come at a high cost of time and money. In December of 2017, VHPB underwent a Cyber Information Security Assessment. Upon completion of the assessment, it was discovered that there were numerous vulnerabilities that needed to be corrected. With the advice and consent of the Board of Directors, VHPB employed an information technology ("IT") company to monitor and maintain our data systems and computers. This same company has the responsibility to correct any and all vulnerabilities as they occur. To further secure our data, a new firewall was purchased and installed. An additional IT company was employed to test our systems once each month for vulnerabilities and report to the Board of Directors. VHPB has signed an agreement with the Mississippi Department of Information Technology Services to participate (at an expense to VHPB) in Security Awareness and Education Training.

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**
Statement of Net Position
June 30, 2018

ASSETS

Current assets:

Cash and cash equivalents:	
Equity in internal investment pool	\$ 84,411,879
Cash in banks	31,618
Total cash and cash equivalents	<u>84,443,497</u>

Receivables, net:

Advances to cafeteria plan	3,709
Interest receivable on loans	453,757
Due from other funds	32,347
Loans receivable, current portion	<u>5,693,770</u>
Total receivables, net	<u>6,183,583</u>

Prepaid expenses	<u>10,195</u>
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Total current assets	90,637,275
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Loans receivable, net of current portion	150,300,280
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Capital assets, net	<u>1,253,314</u>
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Total assets	<u>242,190,869</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to net pension liability	305,269
Deferred outflows related to OPEB liability	<u>7,024</u>
Total deferred outflows of resources	<u>312,293</u>

LIABILITIES

Current liabilities:

Warrants payable	922,935
Accounts payable and accruals	12,208
Deposits and funds held for others	1,667,699
Due to other governments	<u>181,848</u>
Total current liabilities	<u>2,784,690</u>

Noncurrent liabilities:

Compensated absences	78,551
Net pension liability	2,085,072
Net OPEB liability	<u>116,687</u>
Total noncurrent liabilities	<u>2,280,310</u>

Total liabilities	<u>5,065,000</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to net pension liability	49,504
Deferred inflows related to OPEB liability	<u>5,942</u>
Total deferred inflows of resources	<u>55,446</u>

NET POSITION

Invested in capital assets	1,253,314
Unrestricted	<u>236,129,402</u>
Total net position	\$ <u>237,382,716</u>

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

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

Operating revenues:	
Interest on loans	\$ 5,534,787
Fees	157,608
Other	<u>6,294</u>
Total operating revenues	<u>5,698,689</u>
Operating expenses:	
General and administrative	1,394,069
Contractual services	334,604
Commodities	41,843
Depreciation	35,541
Loss on foreclosed loans	<u>12,121</u>
Total operating expenses	<u>1,818,178</u>
Operating income	3,880,511
Nonoperating revenues -	
Interest and other investment income, net	<u>1,062,839</u>
Income before transfers	4,943,350
Transfers in - rent	<u>47,243</u>
Changes in net position	<u>4,990,593</u>
Total net position, beginning - as previously reported	232,506,552
Prior period adjustment	<u>(114,429)</u>
Total net position, beginning - as restated	<u>232,392,123</u>
Total net position, ending	\$ <u>237,382,716</u>

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

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

Statement of Cash Flows
For the Year Ended June 30, 2018

Cash flows from operating activities:

Cash receipts from borrowers - miscellaneous	\$ 339,399
Cash payments to suppliers for goods and services	(155,437)
Cash payments to employees for services	(1,159,876)
Other operating cash receipts (disbursements), net	(165,236)
Principal and interest received on loans	22,056,997
Issuance of loans	<u>(19,136,575)</u>

Net cash provided by operating activities 1,779,272

Cash flows from noncapital financing activities -

Transfers from other funds - rent	47,243
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Cash flows from investing activities -

Interest and other investment income - nonoperating	<u>1,059,725</u>
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Net increase in cash and cash equivalents 2,886,240

Cash and cash equivalents at beginning of year 81,557,257

Cash and cash equivalents at end of year \$ 84,443,497

Classified on the balance sheet as follows:

Equity in internal investment pool	\$ 84,411,879
Cash in banks	<u>31,618</u>

Cash and cash equivalents at end of year \$ 84,443,497

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Statement of Cash Flows
For the Year Ended June 30, 2018

**Reconciliation of operating income to net
cash provided by operating activities:**

Operating income	\$ <u>3,880,511</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	35,541
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
Advances to cafeteria plan	(193)
Interest receivable on loans	21,295
Due from other funds - related to operations	682
Loans receivable	(2,976,026)
Prepaid expenses	9,996
Warrants payable	536,631
Accounts payable and accruals	4,314
Deposits and funds held for others	(125,339)
Due to other governments	177,393
Net pension liability and related deferred outflows/inflows of resources	213,291
Net OPEB liability and related deferred outflows/inflows of resources	<u>1,176</u>
Total adjustments	<u>(2,101,239)</u>
Net cash provided by operating activities	\$ <u>1,779,272</u>

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

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Notes to Financial Statements
June 30, 2018

(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, 2018

(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 (\$300,000 plus a funding fee, at June 30, 2018) 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, 2018

(1) Summary of Significant Accounting Policies (Continued)

(g) Loans Receivable (Continued)

Inasmuch as 93.68% 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.

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(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 and two other postemployment benefits related items that qualify for reporting in this category.

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 and one other postemployment benefits related item that qualifies for reporting in this category.

See notes 11 and 12 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) **Postemployment Benefits Other than Pensions**

For purposes of measuring the net postemployment benefits other than pensions ("OPEB") liability and deferred outflows/inflows of resources relating to OPEB, and OPEB expense, information about the fiduciary net position of the Mississippi State and School Employees' Life and Health Insurance Plan ("OPEB Plan") and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. Fiduciary net position was zero as of the measurement date of June 30, 2017. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

STATE OF MISSISSIPPI
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(1) **Summary of Significant Accounting Policies (Continued)**

(m) **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, 2018.

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

(n) **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.

(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 2018, VHPB implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for financial statement periods beginning after June 15, 2017. This statement addresses accounting and financial reporting requirements for other postemployment benefits (“OPEB”) that are provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. See note 14 for details on the results of implementing this statement.

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

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

VHPB is currently analyzing its accounting practices to determine the potential impact on the basic financial statements for the following GASB Statements becoming effective in future periods:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, effective for financial reporting periods beginning after June 15, 2018.
- GASB Statement No. 84, *Fiduciary Activities*, effective for financial reporting periods beginning after December 15, 2018.
- GASB Statement No. 87, *Leases*, effective for financial reporting periods beginning after December 15, 2019.

(q) **Advertising Costs**

Advertising costs are expensed as incurred. Advertising expense totaled \$4,852 for the year ended June 30, 2018.

(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, 2018, the State's total pooled investments for State agencies were approximately \$3.3 billion, and the average remaining life of the securities invested was 921 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.

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(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, 2018, was \$31,618 and the corresponding bank balances were \$88,502. 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:

<u>Description</u>	<u>Amount</u>
Due from the State Treasurer's Office internal investment pool	\$ <u>32,347</u>

(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, 2018, 93.68% 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.

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(5) Loans Receivable (Continued)

A summary of loans receivable follows:

<u>Description</u>	<u>Amount</u>
Guaranteed by the United States Veterans' Administration	\$ 146,136,416
Non-guaranteed loans	<u>9,857,634</u>
Total loans receivable	155,994,050
Less loans receivable, current portion	<u>5,693,770</u>
Loans receivable, net of current portion	\$ <u>150,300,280</u>

Loans mature at various intervals through June 30, 2048. The scheduled principal payments receivable on loans maturing in subsequent years are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 5,693,770
2020	5,843,690
2021	5,900,221
2022	5,968,604
2023	6,037,106
Thereafter	<u>126,550,659</u>
Total maturities	\$ <u>155,994,050</u>

As of June 30, 2018, VHPB had 16 loans with outstanding balances totaling \$1,606,726 in delinquent status. Management of VHPB believes that sufficient remedies are available under the loan agreements to prevent any material losses on these loans.

Included in the loans receivable balance at June 30, 2018, is \$1,923,824 for loans made for residences on leased property from the State of Mississippi 16th Section Public School Trust Lands and Pearl River Valley Water Supply District.

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(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, 2018, there were no loans outstanding in this group.

(6) Capital Assets

A summary of capital asset activity for the year ended June 30, 2018, follows:

<u>Description</u>	<u>2017 Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>2018 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	-	5,056	141,185
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>5,056</u>	<u>1,752,706</u>
Less accumulated depreciation for:				
Buildings and improvements	546,273	31,668	-	577,941
Furniture and equipment	123,325	3,873	5,056	122,142
Vehicles	<u>25,309</u>	<u>-</u>	<u>-</u>	<u>25,309</u>
Total accumulated depreciation	<u>694,907</u>	<u>35,541</u>	<u>5,056</u>	<u>725,392</u>
Total capital assets being depreciated, net	<u>1,062,855</u>	<u>(35,541)</u>	<u>-</u>	<u>1,027,314</u>
Total capital assets, net	\$ <u>1,288,855</u>	<u>(35,541)</u>	<u>-</u>	<u>1,253,314</u>

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(7) **Due to Other Governments**

A summary of amounts due to other governments follows:

<u>Description</u>	<u>Amount</u>
United States Veterans' Administration	\$ 181,791
City of Pearl, Mississippi	<u>57</u>
Total due to other governments	\$ <u>181,848</u>

(8) **Noncurrent Liabilities**

A summary of changes in noncurrent liabilities during the year ended June 30, 2018, follows:

<u>Description</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>
Compensated absences	\$ 83,212	36,171	(33,744)	85,639	7,088
Net pension liability	2,150,109	61,689	(126,726)	2,085,072	-
Net OPEB liability ¹	<u>119,020</u>	<u>2,258</u>	<u>(4,591)</u>	<u>116,687</u>	<u>-</u>
Noncurrent liabilities	\$ <u>2,352,341</u>	<u>100,118</u>	<u>(165,061)</u>	<u>2,287,398</u>	<u>7,088</u>

¹The net OPEB liability is a new noncurrent liability beginning in fiscal year 2018 as a result of the implementation of GASB Statement No. 75. The prior year balance is a result of a prior period adjustment (see notes 12 and 14).

(9) **Rental Income**

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

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(9) Rental Income (Continued)

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.

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

<u>Description</u>	<u>Amount</u>
Land	\$ 226,000
Cost of building	1,583,400
Accumulated depreciation	<u>(577,941)</u>
Net book value of property	\$ <u>1,231,459</u>
Depreciation expense	\$ <u>31,668</u>

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>
2019	\$ 47,243
2020	47,243
2021	47,243
2022	47,243
2023	<u>47,243</u>
Total minimum future rentals for the next five fiscal years	\$ <u>236,215</u>

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(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.

(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 employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. 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

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(11) Pension Plan (Continued)

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.

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, 2018, was 15.75% of annual covered payroll. Plan provisions and the Board of Trustee's authority to determine contribution rates are established by Section 25-11-1 of the Mississippi Code of 1972, as amended, and may be amended only by the Mississippi Legislature.

A summary of VHPB's contribution to PERS for the fiscal year ended June 30, 2018, follows:

<u>Description</u>	<u>Amount</u>
Employer contribution	\$ <u>137,883</u>
Contribution rate	<u>15.75%</u>

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

At June 30, 2018, VHPB reported a liability for its proportionate share of the net pension liability of the plan as follows:

<u>Description</u>	<u>Amount</u>
Net pension liability	\$ <u>2,085,072</u>

The net pension liability for fiscal year 2018 was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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.

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(11) Pension Plan (Continued)

VHPB's change in proportionate share of the plan's net pension liability for fiscal year 2018 follows:

<u>Description</u>	<u>Measurement Date</u>	<u>Percentage</u>
Proportionate share	6/30/17	0.012543%
Proportionate share	6/30/16	<u>0.012037%</u>
Increase (decrease)		<u>0.000506%</u>

For the fiscal year ended June 30, 2018, VHPB recognized pension expense of \$351,174.

At June 30, 2018, VHPB reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 43,227	3,409
Changes in proportion	95,649	-
VHPB contributions subsequent to the measurement date	137,883	-
Differences between expected and actual experience	28,510	15,214
Net difference between projected and actual earnings on plan investments	<u>-</u>	<u>30,881</u>
Totals	\$ <u>305,269</u>	<u>49,504</u>

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.

\$137,883 reported in fiscal year 2018 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, 2019.

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(11) Pension Plan (Continued)

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>
2019	\$ 84,397
2020	63,681
2021	10,080
2022	<u>(40,276)</u>
Total	\$ <u>117,882</u>

Actuarial Assumptions

The total pension liability in the June 30, 2017, 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	3.25 - 18.50%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

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.

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(11) Pension Plan (Continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 measurement date, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Broad	27.00%	4.60%
International Equity	18.00	4.50
Emerging Markets Equity	4.00	4.75
Global	12.00	4.75
Fixed Income	18.00	0.75
Real Assets	10.00	3.50
Private Equity	8.00	5.10
Emerging Debt	2.00	2.25
Cash	<u>1.00</u>	-
Total	<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.

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:

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

<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>2,734,712</u>	<u>2,085,072</u>	<u>1,545,731</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) **Other Postemployment Benefits**

General Information about the Other Postemployment Benefits ("OPEB") Plan

Plan Description

State law mandates that all state, public education, library, junior and community college and retiring employees be offered health and life benefit coverage through the State of Mississippi State and School Employees' Life and Health Insurance Plan ("the Plan"). The Plan was established by Section 25-15-3 et seq., Mississippi Code Ann. (1972), which may be amended only by the State Legislature. The State and School Employees' Health Insurance Management Board ("the Board") administers the Plan. The Board has the sole legal authority to promulgate rules and regulations governing the operations of the Plan within the confines of the law governing the Plan. The Plan is self-insured and is financed through premiums collected from employers, employees, retirees, and COBRA participants. The Plan provides for Other Postemployment Benefits ("OPEB") as a multiple-employer defined benefit OPEB plan. A trust was created June 28, 2018 for the OPEB Plan and, while no trust was in place for the June 30, 2017 plan year-end, for purposes of comparability for future periods, terminology used herein is based on the plan being a cost-sharing multiple-employer defined benefit OPEB plan. The OPEB Plan does not issue a stand-alone financial report.

Benefits Provided

The Plan was formed by the State Legislature to provide group health and life benefits to full-time active and retired employees of the State, state agencies, universities, community/junior colleges, public school districts, and public libraries. In addition, the

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(12) Other Postemployment Benefits (Continued)

spouse and/or children of covered employees and retirees, as well as surviving spouses and COBRA participants, may be eligible for health insurance coverage under the Plan. Benefits of the OPEB Plan consist of an implicit rate subsidy, which is essentially the difference between the average cost of providing health care benefits to retirees under age 65 and the average cost of providing health care benefits to all participants when premiums paid by retirees are not age adjusted. Employees' premiums are funded primarily by their employers. Retirees must pay their own premiums, as do active employees for spouse and dependent medical coverage. The Board has the sole authority for setting life and health insurance premiums for the Plan. Per Section 12-15-15 (10) Mississippi Code Ann. (1972), a retired employee electing to purchase retiree life and health insurance must pay the full cost of such insurance premium. If the Board determined actuarially that the premium paid by the participating retirees adversely affects the overall cost of the Plan to the State, then the Board may impose a premium surcharge, not to exceed 15%, upon such participating retired employees who are under the age for Medicare eligibility and who are initially employed before January 1, 2006. For participating retired employees who are under the age for Medicare eligibility and who are initially employed on or after January 1, 2006, the Board may impose a premium surcharge in an amount the Board determined actuarially to cover the full cost of insurance. The Plan offers a Base option and a Select option for health benefits for non-Medicare participants. The Plan includes a separate coverage level for Medicare eligible retirees, Medicare eligible surviving spouses, and Medicare eligible dependents of retirees and surviving spouses.

Contributions

The Board has the sole authority for setting life and health insurance premiums for the Plan. The required premiums vary based on the plan selected and the type of participant. Employers pay no premiums for retirees, while employees' premiums are funded primarily by their employer. Contributions to the OPEB Plan from VHPB were \$4,975 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, VHPB reported a liability of \$116,687 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The basis for VHPB's proportion is determined by comparing the employer's average monthly employees participating in the Plan with the total average employees participating in the Plan in the fiscal year of all employers. The

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June 30, 2018

(12) Other Postemployment Benefits (Continued)

allocation was utilized because the level of premiums contributed by each employer is the same for any employee regardless of plan participation elections made by the employee. At the measurement date of June 30, 2017, VHPB's proportion was 0.01487202 percent. This was an increase of 0.00029493 percent from the proportionate share as of the measurement date of June 30, 2016.

For the year ended June 30, 2018, VHPB recognized OPEB expense of \$6,151. At June 30, 2018, VHPB reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ -	5,942
Changes in proportion and differences between VHPB contributions and proportionate share of contributions	2,049	-
VHPB contributions subsequent to the measurement date	<u>4,975</u>	<u>-</u>
Totals	\$ <u><u>7,024</u></u>	<u><u>5,942</u></u>

The \$4,975 reported as deferred outflows of resources related to OPEB resulting from VHPB contributions subsequent to the measurement date will be recognized as a reduction to the net OPEB liability in the year ended June 30, 2019.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ (683)
2020	(683)
2021	(683)
2022	(683)
2023	(683)
2024	<u>(478)</u>
Total	\$ <u><u>(3,893)</u></u>

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2018

(12) Other Postemployment Benefits (Continued)

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumption, applied to all periods included in the measurement, unless otherwise specified:

<u>Description</u>	<u>Assumptions</u>
Inflation	3.00%
Salary increases	3.25 - 18.50%, including wage inflation
Long-term investment rate of return, net of OPEB plan investment expense, including inflation	N/A
Municipal bond index rate:	
Measurement date	3.56%
Prior measurement date	3.01%
Year FNP is projected to be depleted:	
Measurement date	2017
Prior measurement date	2016
Single equivalent interest rate, net of OPEB Plan investment expense, including inflation:	
Measurement date	3.56%
Prior measurement date	3.01%
Health care cost trends:	
Medicare supplement claims – Pre-Medicare	7.75% for 2017 decreasing to an ultimate rate of 5.00% by 2023

Both pre-retirement and post retirement rates were based on the RP 2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022, male rates set forward 1 year and adjusted by 106% for males at all ages, and females adjusted to 90% for ages less than 76, 95% for age 76, 105% for age 78, and 110% for ages 79 and greater. Post-disability mortality rates were based on the RP 2014 Disabled Retiree Mortality Table set forward 4 years for males and 3 years for females.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2018

(12) Other Postemployment Benefits (Continued)

The demographic actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated April 18, 2017.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

The Plan had no assets as of the measurement date of 2017.

Discount rate

The discount rate used to measure the total OPEB liability at June 30, 2017, was 3.56 percent. Since the Prior Measurement Date, the Discount Rate has changed from 3.01 percent to 3.56 percent.

Since no trust was set up as of June 30, 2017, there was no projection of cash flows for the Plan and the Plan was projected to be depleted in 2017.

The discount determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used, if necessary, for this purpose is the average of the Bond Buyer General Obligation 20-year Municipal Bond Index Rates during the month of June published at the end of each week by the Bond Buyer.

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

The following presents VHPB's proportionate share of the net OPEB liability, as well as what VHPB's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

<u>Description</u>	<u>1% Decrease (2.56%)</u>	<u>Current Discount Rate (3.56%)</u>	<u>1% Increase (4.56%)</u>
VHPB's proportionate share of the net OPEB liability	\$ <u>119,769</u>	<u>116,687</u>	<u>114,392</u>

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2018

(12) Other Postemployment Benefits (Continued)

Sensitivity of VHPB's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents VHPB's proportionate share of the net OPEB liability, as well as what VHPB's proportionate share of the net OPEB liability would be if it were calculated using health care cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current health care cost trend rates:

<u>Description</u>	<u>1% Decrease</u>	<u>Health Care Cost Trend Rates Current</u>	<u>1% Increase</u>
VHPB's proportionate share of the net OPEB liability	\$ <u>119,769</u>	<u>116,687</u>	<u>114,392</u>

OPEB Plan Fiduciary Net Position

The fiduciary net position for the OPEB Plan was zero as of June 30, 2017, the measurement date. Therefore, no separately issued financials were prepared. Detailed information about the OPEB Plan's fiduciary net position for June 30, 2018 and going forward will be available in separately issued financial reports available on the Mississippi Department of Finance and Administrations' website.

(13) 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 year ended June 30, 2018, totaled approximately \$8,511.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Financial Statements
June 30, 2018

(14) Prior Period Adjustment

A prior period adjustment of \$114,429 was made to decrease the beginning net position. This adjustment was made to reflect the prior period costs related to the net OPEB liability recorded as a result of the implementation of GASB No. 75.

<u>Description</u>	<u>Amount</u>
Net OPEB liability at June 30, 2016, measurement date	\$ 119,020
Deferred outflow related to contributions made during fiscal year 2017	<u>(4,591)</u>
Total prior period adjustment related to implementation of GASB 75	\$ <u>114,429</u>

(15) Risk Management

VHPB is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees while performing VHPB business; and acts of God. Losses are generally covered by commercial insurance, with the exception of the self-insured risks discussed below. There have been no significant reductions in coverage and settlement amounts did not exceed insurance coverage for the year ended June 30, 2018.

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

Tort Claims – VHPB is a participant in the Mississippi Tort Claims Fund ("the Fund") which is under the administration of the Mississippi Tort Claims Board. The Fund is a self-insured tort (civil suit) claims fund organized under Mississippi Code Ann. 1972 section 11-46-17. Participation for State agencies is mandatory. The Fund is self-insured for claims up to the statutory limits. Under sections 11-46-15 and 11-46-17 of the Mississippi Code Ann. 1972, no court is allowed to issue a verdict in excess of certain statutory limits that increased to \$500,000 on July 1, 2002, or if the entity carries excess

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Notes to Financial Statements
June 30, 2018

(15) Risk Management (Continued)

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.

(16) Subsequent Events

In July 2018, VHPB increased the interest rate on loans maturing from 16 to 30 years from 3.00% to 3.25%. The interest rate on loans maturing in 15 years or less was increased from 2.75% to 3.00%.

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
VHPB's proportion of the net pension liability	0.012543%	0.012037%	0.011659%	0.011351%
VHPB's proportionate share of the net pension liability	\$ 2,085,072	2,150,109	1,802,251	1,377,804
VHPB's covered payroll	\$ 804,609	770,032	728,407	693,611
VHPB's proportionate share of the net pension liability as a percentage of its covered payroll	259.14%	279.22%	247.42%	198.64%
Plan fiduciary net position as a percentage of the total pension liability	61.49%	57.47%	61.70%	67.21%

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

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

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

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 Years¹

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 137,883	126,726	121,280	114,724
Contributions in relation to the statutorily required contribution	<u>137,883</u>	<u>126,726</u>	<u>121,280</u>	<u>114,724</u>
Annual contribution deficiency (excess)	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
VHPB's covered payroll	\$ <u>875,447</u>	<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>	<u>15.75%</u>

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

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

SCHEDULE 3**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD****Required Supplementary Information****Mississippi State and Local Employees' Life and Health Insurance OPEB Plan -
Schedule of VHPB's Proportionate Share of the Net OPEB Liability
Last Ten Fiscal Years¹**

	<u>2018</u>
VHPB's proportion of the net OPEB liability	0.01487202%
VHPB's proportionate share of the net OPEB liability	\$ 116,687
VHPB's covered payroll	\$ 804,609
VHPB's proportionate share of the net OPEB liability as a percentage of its covered payroll	14.50%
Plan fiduciary net position as a percentage of the total OPEB liability	N/A

¹GASB 75 was implemented in fiscal year 2018. 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 4

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Required Supplementary Information
Mississippi State and Local Employees' Life and Health Insurance OPEB Plan -
Schedule of VHPB's Contributions
Last Ten Fiscal Years¹

	<u>2018</u>
Actuarially determined employer contribution	\$ 6,495
Contributions in relation to the actuarially determined contribution	<u>4,591</u>
Annual contribution deficiency	\$ <u>1,904</u>
VHPB's covered payroll	\$ <u>804,609</u>
Contributions as a percentage of covered payroll	<u>0.57%</u>

¹GASB 75 was implemented in fiscal year 2018. Information is not available to present a full ten years. VHPB has presented information for the years in which it is available.

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

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

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Notes to Required Supplementary Information
June 30, 2018

PENSION SCHEDULES

(1) Changes of Assumptions

In plan year 2017, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives. The wage inflation assumption was reduced from 3.75% to 3.25%. Withdrawal rates, pre-retirement mortality rates, disability rates, and service retirement rates were also adjusted to more closely reflect actual experience. The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

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

(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 (fiscal year 2018 employer contributions are developed from the 2016 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	33.9 years
Asset valuation method	5-year smoothed market
Price inflation	3.00 percent
Salary increase	3.75 percent to 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Notes to Required Supplementary Information
June 30, 2018

OPEB SCHEDULES

(1) Changes of Assumptions

In plan year 2017, the SEIR was changed from 3.01% for the prior measurement date to 3.56% for the current measurement date

(2) Changes in Benefit Provisions

In plan year 2017, there were no changes in benefit provisions.

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

The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the schedule of VHPB's contributions are calculated as of the most recent valuation date. The following actuarial methods and assumptions (from the June 30, 2016 actuarial valuation) were used to determine contribution rates reported in that schedule for the year ended June 30, 2017:

Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period	30 years, open
Asset valuation method	Market value of assets
Price inflation	3.00 percent
Salary increases, including wage inflation	3.25 percent to 18.50 percent
Initial health care cost trend rates – Medicare supplement claims – Pre-Medicare	7.75 percent
Ultimate health care cost trend rates – Medicare supplement claims – Pre-Medicare	5.00 percent
Year of ultimate trend rates – Medicare supplement claims – Pre-Medicare	2022
Long-term investment rate of return, net of pension plan investment expense, including price inflation	3.56 percent

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Combining Statements of Net Position
June 30, 2018

	<u>Fund 3734</u> <u>Operating</u>	<u>Fund 3735</u> <u>Escrow</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined</u>
<u>ASSETS</u>					
Current assets:					
Equity in internal investment pool	\$ 82,722,662	1,689,217	84,411,879	-	84,411,879
Cash in banks	31,618	-	31,618	-	31,618
Receivables, net:					
Advances to cafeteria plan	3,709	-	3,709	-	3,709
Interest receivable on loans	453,757	-	453,757	-	453,757
Due from other funds	32,347	20,788	53,135	(20,788)	32,347
Loans receivable, current portion	5,693,770	-	5,693,770	-	5,693,770
Prepaid expenses	10,195	-	10,195	-	10,195
Total current assets	88,948,058	1,710,005	90,658,063	(20,788)	90,637,275
Loans receivable, net of current portion	150,300,280	-	150,300,280	-	150,300,280
Capital assets, net	1,253,314	-	1,253,314	-	1,253,314
Total assets	240,501,652	1,710,005	242,211,657	(20,788)	242,190,869
<u>DEFERRED OUTFLOWS OF RESOURCES</u>					
Deferred outflows related to net pension liability	305,269	-	305,269	-	305,269
Deferred outflows related to OPEB liability	7,024	-	7,024	-	7,024
Total deferred outflows of resources	312,293	-	312,293	-	312,293
<u>LIABILITIES</u>					
Current liabilities:					
Warrants payable	855,369	67,566	922,935	-	922,935
Accounts payable and accruals	12,208	-	12,208	-	12,208
Deposits and funds held for others	25,260	1,642,439	1,667,699	-	1,667,699
Due to other funds	20,788	-	20,788	(20,788)	-
Due to other governments	181,848	-	181,848	-	181,848
Total current liabilities	1,095,473	1,710,005	2,805,478	(20,788)	2,784,690
Noncurrent liabilities:					
Compensated absences	78,551	-	78,551	-	78,551
Net pension liability	2,085,072	-	2,085,072	-	2,085,072
Net OPEB liability	116,687	-	116,687	-	116,687
Total noncurrent liabilities	2,280,310	-	2,280,310	-	2,280,310
Total liabilities	3,375,783	1,710,005	5,085,788	(20,788)	5,065,000
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Deferred inflows related to net pension liability	49,504	-	49,504	-	49,504
Deferred inflows related to OPEB liability	5,942	-	5,942	-	5,942
Total deferred inflows of resources	55,446	-	55,446	-	55,446
<u>NET POSITION</u>					
Invested in capital assets	1,253,314	-	1,253,314	-	1,253,314
Unrestricted	236,129,402	-	236,129,402	-	236,129,402
Total net position	\$ 237,382,716	-	237,382,716	-	237,382,716

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Combining Statements of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2018

	<u>Fund 3734</u> <u>Operating</u>	<u>Fund 3735</u> <u>Escrow</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined</u>
Operating revenues:					
Interest on loans	\$ 5,534,787	-	5,534,787	-	5,534,787
Fees	157,608	-	157,608	-	157,608
Other	6,294	-	6,294	-	6,294
Total operating revenues	<u>5,698,689</u>	<u>-</u>	<u>5,698,689</u>	<u>-</u>	<u>5,698,689</u>
Operating expenses:					
General and administrative	1,394,069	-	1,394,069	-	1,394,069
Contractual services	334,604	-	334,604	-	334,604
Commodities	41,843	-	41,843	-	41,843
Depreciation	35,541	-	35,541	-	35,541
Loss on foreclosed loans	12,121	-	12,121	-	12,121
Total operating expenses	<u>1,818,178</u>	<u>-</u>	<u>1,818,178</u>	<u>-</u>	<u>1,818,178</u>
Operating income	3,880,511	-	3,880,511	-	3,880,511
Nonoperating revenues -					
Interest and other investment income, net	<u>1,062,839</u>	<u>-</u>	<u>1,062,839</u>	<u>-</u>	<u>1,062,839</u>
Income before transfers	4,943,350	-	4,943,350	-	4,943,350
Transfers in - rent	<u>47,243</u>	<u>-</u>	<u>47,243</u>	<u>-</u>	<u>47,243</u>
Changes in net position	<u>4,990,593</u>	<u>-</u>	<u>4,990,593</u>	<u>-</u>	<u>4,990,593</u>
Total net position, beginning - as previously reported	232,506,552	-	232,506,552	-	232,506,552
Prior period adjustment	<u>(114,429)</u>	<u>-</u>	<u>(114,429)</u>	<u>-</u>	<u>(114,429)</u>
Total net position, beginning - as restated	<u>232,392,123</u>	<u>-</u>	<u>232,392,123</u>	<u>-</u>	<u>232,392,123</u>
Total net position, ending	\$ <u>237,382,716</u>	<u>-</u>	<u>237,382,716</u>	<u>-</u>	<u>237,382,716</u>

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

Combining Statements of Cash Flows
For the Year Ended June 30, 2018

	<u>Fund 3734</u> <u>Operating</u>	<u>Fund 3735</u> <u>Escrow</u>	<u>Total</u>
Cash flows from operating activities:			
Cash receipts from borrowers - miscellaneous	\$ 339,399	-	339,399
Cash payments to suppliers for goods and services	(155,437)	-	(155,437)
Cash payments to employees for services	(1,159,876)	-	(1,159,876)
Other operating cash receipts (disbursements), net	6,100	(171,336)	(165,236)
Principal and interest received on loans	22,056,997	-	22,056,997
Issuance of loans	<u>(19,136,575)</u>	<u>-</u>	<u>(19,136,575)</u>
Net cash provided by (used in) operating activities	1,950,608	(171,336)	1,779,272
Cash flows from noncapital financing activities -			
Transfers from other funds - rent	47,243	-	47,243
Cash flows from investing activities -			
Interest and other investment income - nonoperating	<u>1,059,725</u>	<u>-</u>	<u>1,059,725</u>
Net increase (decrease) in cash and cash equivalents	3,057,576	(171,336)	2,886,240
Cash and cash equivalents at beginning of year	<u>79,696,704</u>	<u>1,860,553</u>	<u>81,557,257</u>
Cash and cash equivalents at end of year	\$ <u>82,754,280</u>	<u>1,689,217</u>	<u>84,443,497</u>
Classified on the balance sheet as follows:			
Equity in internal investment pool	\$ 82,722,662	1,689,217	84,411,879
Cash in banks	<u>31,618</u>	<u>-</u>	<u>31,618</u>
Cash and cash equivalents at end of year	\$ <u>82,754,280</u>	<u>1,689,217</u>	<u>84,443,497</u>

STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Combining Statements of Cash Flows
For the Year Ended June 30, 2018

	<u>Fund 3734</u> <u>Operating</u>	<u>Fund 3735</u> <u>Escrow</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:					
Operating income	\$ 3,880,511	-	3,880,511	-	3,880,511
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Depreciation	35,541	-	35,541	-	35,541
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:					
Advances to cafeteria plan	(193)	-	(193)	-	(193)
Interest receivable on loans	21,295	-	21,295	-	21,295
Due from other funds - related to operations	-	(2,721)	(2,721)	3,403	682
Loans receivable	(2,976,026)	-	(2,976,026)	-	(2,976,026)
Prepaid expenses	9,996	-	9,996	-	9,996
Warrants payable	580,084	(43,453)	536,631	-	536,631
Accounts payable and accruals	4,314	-	4,314	-	4,314
Deposits and funds held for others	(177)	(125,162)	(125,339)	-	(125,339)
Due to other funds	3,403	-	3,403	(3,403)	-
Due to other governments	177,393	-	177,393	-	177,393
Net pension liability and related deferred outflows/inflows of resources	213,291	-	213,291	-	213,291
Net OPEB liability and related deferred outflows/inflows of resources	1,176	-	1,176	-	1,176
Total adjustments	(1,929,903)	(171,336)	(2,101,239)	-	(2,101,239)
Net cash provided by (used in) operating activities	\$ 1,950,608	(171,336)	1,779,272	-	1,779,272

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD
Capital Assets
June 30, 2018**

<u>Description</u>	<u>Cost</u>			
	<u>6/30/2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>6/30/2018</u>
Land	\$ 226,000	-	-	226,000
Buildings and improvements	1,583,400	-	-	1,583,400
Furniture and equipment	146,241	-	5,056	141,185
Vehicles	28,121	-	-	28,121
Total cost	\$ 1,983,762	-	5,056	1,978,706

<u>Description</u>	<u>Accumulated Depreciation</u>			
	<u>6/30/2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>6/30/2018</u>
Land	\$ -	-	-	-
Buildings and improvements	546,273	31,668	-	577,941
Furniture and equipment	123,325	3,873	5,056	122,142
Vehicles	25,309	-	-	25,309
Total accumulated depreciation	\$ 694,907	35,541	5,056	725,392

Capital assets, net **\$ 1,253,314**

Capital Assets, Net	
<u>6/30/2018</u>	
Land	\$ 226,000
Buildings and improvements	1,005,459
Furniture and equipment	19,043
Vehicles	2,812
	\$ 1,253,314

**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, 2018

**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 year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise VHPB's basic financial statements and have issued our report thereon dated December 3, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit 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 a 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

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

not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses (Finding 2018-001) 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.

 Bryan Sanders : O'Neil, J.H.

Jackson, Mississippi
December 3, 2018

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Schedule of Findings and Responses
June 30, 2018

Finding 2018-001

Repeat Finding (PY 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 of taxes and insurance result in late fees/notices and may create more dire consequences.

**STATE OF MISSISSIPPI
VETERANS' HOME PURCHASE BOARD**
Schedule of Findings and Responses
June 30, 2018

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. Documentation should be provided on days in which there was no activity for support. Such reconciliations should document the preparer and reviewer; and should be properly stored in an orderly fashion. 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 has implemented the revised reconciliation policy and procedure below starting late November 2018. In addition to this new policy, VHPB has created a new position for the servicing department. This position serves as the servicing department's Quality Control/Compliance Officer. Since this placement, changes in the operations of the department have had a positive effect on the problems outlined in this audit, with more changes to come. Due to most of these findings being a repeat from the last three years, VHPB is committed to resolving these issues. Being short staffed, management is committed to step up cross training in the servicing department. VHPB will formulate schedules to track property taxes and homeowner insurance to ensure timely payment and to track annual escrow analysis to ensure inclusion of all accounts.

Revised Reconciliation Policy

It is the policy of Veterans' Home Purchase Board to require 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. With emphasis on ensuring agreement with the two systems. To accomplish this, each designated employee with this responsibility is provided a computer with two (2) monitor screens. When a payment is required, one monitor will display the ILS System and the other will display the "Magic System". Once the transaction is completed in the ILS System, the employee will immediately complete the transaction in the "Magic System". To further verify that the two systems are reconciled, each employee described above will print the "G/L Daily Disbursement Report" from ILS and reconcile (compare) it with the printed work flow history report "ZF_WF_STATUS" from the Magic System. In addition, the Warrant Status Report will be printed daily.

Each day these reconciliation documents will be submitted to the Supervisor of the Servicing Department for his/her review and used in authorizing the release of the Warrant (check or payment) in the Magic System. The Supervisor will initial the documents as evidence of his/her review.

**STATE OF MISSISSIPPI
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Schedule of Findings and Responses
June 30, 2018

The Supervisor of the Servicing Department will track the warrants ordered through the Magic System against the warrants received from DFA on a daily basis. (using the Job Aid Magic Report "ZFFM WARR_STATUS")

The Supervisor will receive the warrants and compare to the daily reconciliation as received with the emphasis on warrants "not received" or "rejected". (Job Aid FBL3N)

Days in which there is no activity will be documented for support. Reconciliations will document the preparer and reviewer and will be properly stored in an orderly fashion.

Discrepancies will be immediately investigated and corrections made timely and verified by Supervisor.