The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

MATTHEWS CUTRER and LINDSAY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

STATE OF MISSISSIPPI VETERANS' HOME PURCHASE BOARD

FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2023
(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

Ridgeland, Clinton, and Yazoo City, Mississippi

STATE OF MISSISSIPPI VETERANS' HOME PURCHASE BOARD
JUNE 30, 2023

TABLE OF CONTENTS

1020 Highland Colony Parkway
Suite 500
Ridgeland, MS 39157
601.898.8875
Fax: 601.898.2983

541 B Highway 80 West
Clinton, MS 39056
601.924.6842
Fax: 601.924.6679

200 South Main Street
Yazoo City, MS 39194
662.746.4581
Fax: 662.746.5384

www.mcl.cpa

American Institute of
Certified Public Accountants

Mississippi Society of
Certified Public Accountants

Charles R. Lindsay, CPA
Matthew E. Freeland, CPA
Ken L. Guthrie, CPA
Joe Tommasini, CPA
Matthew A. Turnage, CPA
Kimberly L. Hardy, CPA, CFF
William (Bill) McCoy, CPA
Michelle R. Stonestreet, CPA
Chris B. Savell, CPA
Judy W. Shannon, CPA
Shannon L. Adams, CPA
Tolliver C. McMullen, CPA, CFE

Member of
CPAmerica
Member Crowe Global

MATTHEWS CUTRER and LINDSAY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and the fiduciary activities of State of Mississippi Veterans' Home Purchase Board (VHPB), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise VHPB's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary activities of VHPB as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of VHPB and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in note 1, the financial statements of VHPB are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities and the fiduciary 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, 2023, the changes in its financial position, or, where applicable, 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, VHPB adopted new accounting guidance, GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about VHPB's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 VHPB's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about VHPB's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11, and the schedules of VHPB's proportionate share of the net pension and OPEB liabilities and contributions on pages 41 through 47, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2024, 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 solely 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 effectiveness of VHPB's 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.

Matthews, Cutrer & Lindsay, P.A.

Ridgeland, Mississippi
February 15, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023

This section of State of Mississippi Veterans' Home Purchase Board's (VHPB) annual financial report presents the management's discussion and analysis of VHPB's financial performance during the fiscal year ended June 30, 2023. 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 $261,616,769 at June 30, 2023, and $256,273,873 at June 30, 2022.
- VHPB's total net position at June 30, 2023, increased $5,342,896 (2.08%) as compared to total net position at June 30, 2022. This increase largely attributable to the interest earned on loans.
- During the current fiscal year, VHPB's operating expenses totaled $1,854,477, a increase of $94,347, as compared to the prior year's operating expenses of $1,760,130. This increase was largely due to the increase in salaries and benefits as a result of more employees hired during the year.
- VHPB's operating revenues for the current fiscal year totaled $5,847,669 as compared to the prior year revenues of $5,166,628. This was an increase of $681,041, primarily due to the decrease in the interest earned on loans.
- At June 30, 2023, VHPB had $63,436,873 in available loan funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces VHPB's financial statements. The financial statements are comprised of (1) the business-type activities – enterprise fund, (2) the fiduciary activities – custodial fund, and (3) notes to financial statements. VHPB also includes in this report additional information to supplement the financial statements.

Business-type Activities – Enterprise Fund

VHPB's enterprise fund accounts for the operating transactions of VHPB. The enterprise fund financial statements are presented using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The enterprise fund financial statements include the following:

Statement of Net Position - The statement of net position includes all of the enterprise fund’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 the enterprise fund is improving or deteriorating, by reflecting the enterprise fund’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 the enterprise fund’s net position changed during the fiscal years presented. All current year revenues and expenses are included regardless of when cash is received or paid.

Statement of Cash Flows - The statement of cash flows details the cash received and expended by the enterprise fund 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.

Fiduciary Activities – Custodial Fund

VHPB’s custodial fund accounts for the escrow transactions of VHPB. Custodial fund resources are held for the benefit of the borrowers and not available to support VHPB’s loan program. The accounting used for the custodial fund is much like that used for the enterprise fund. The custodial fund financial statements include the following:

Statement of Fiduciary Net Position - The statement of fiduciary net position includes all assets and liabilities associated with the custodial fund, with the difference reported as fiduciary net position.

Statement of Changes in Fiduciary Net Position - The statement of changes in fiduciary net position reports all additions to and deductions from the custodial fund.

Notes to Financial Statements

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

OVERALL FINANCIAL ANALYSIS

Enterprise Fund Net Position - As noted earlier, the enterprise fund net position may serve over time as a useful indicator of an entity's financial position. In the case of VHPB, the enterprise fund assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $261,616,769 at June 30, 2023 and $256,273,873 at June 30, 2022.

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

The following table presents VHPB's enterprise fund net position at June 30, 2023 compared to June 30, 2022.

	2023	2022
Current assets	$ 72,983,642	$ 105,315,954
Loans receivable net of current portion	191,442,775	153,664,296
Capital assets, net	1,090,982	1,135,200
Total assets	265,517,399	260,115,450
Deferred outflows of resources	499,082	451,015
Current liabilities	1,425,662	1,363,513
Noncurrent liabilities	2,931,564	2,247,062
Total liabilities	4,357,226	3,610,575
Deferred inflows of resources	42,486	682,017
Net position		
Net investment in capital assets	1,090,982	1,115,993
Restricted for economic development	260,525,787	255,157,880
Total net position	$ 261,616,769	$ 256,273,873

Enterprise Fund Changes in Net Position - VHPB's enterprise fund total operating revenues for the year ended June 30, 2023, increased $681,041 from the previous year, largely due to a increase in revenues from interest earned on outstanding mortgage loans.

The interest rates on mortgage loans did not change for loans made during the fiscal year ended June 30, 2023. During fiscal year 2023, the interest rate on loans maturing in 15 years or less remained at 5.00% and the interest rate on loans maturing from 16 to 30 years remained at 5.5%. The number of outstanding mortgage loans increased by 77 loans during fiscal year 2023.

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, 2023, VHPB received $22,910,312 in principal and interest payments on outstanding loans and issued $54,143,791 in new loans. At June 30, 2023, VHPB had $63,436,873 in available loans funds.

The following table presents VHPB's enterprise fund operating activities for the fiscal year ended June 30, 2023, compared to the fiscal year ended June 30, 2023.

	2023	2022
Operating revenues	$ 5,847,669	$ 5,166,628
Operating expenses	(1,854,477)	(1,760,130)
Operating income	3,993,192	3,406,498
Nonoperating revenues (expenses)		
Interest and other investment income, net	1,349,704	482,796
Interest expense	-	(741)
Loss on disposal of capital assets	-	-
Total nonoperating revenues	1,349,704	482,055
Income before transfers	5,342,896	3,888,553
Transfers in	136,283	430
Transfers out	(136,283)	(430)
Changes in net position	$ 5,342,896	$ 3,888,553

CAPITAL ASSETS

VHPB's enterprise fund investment in capital assets, net of accumulated depreciation, as of June 30, 2023, was $1,090,982. During the year ended June 30, 2023, VHPB's enterprise fund did not have any capital asset acquisitions and disposed of four fully depreciated work stations.

A summary of VHPB's enterprise fund capital assets, net of accumulated depreciation and amortization, at June 30, 2023 compared to June 30, 2022 follows:

	2023	2022
Land	$ 226,000	$ 226,000
Building and improvements	847,119	878,787
Furniture and equipment	5,510	8,683
Vehicles	1,786	2,812
Intangible right-to-use leased equipment	10,567	18,918
Capital assets, net	$ 1,090,982	$ 1,135,200

VHPB had no capital related debt or capital related deferred inflows/outflows at June 30, 2023 or 2022. Additional information on VHPB's capital assets can be found in note 6 on page 27 of this report.

RIGHT-TO-USE LEASE CONTRACT LIABILITY

The implementation of GASB Statement No. 87, *Leases*, required VHPB to record a liability for equipment leases effective at of the beginning of the fiscal year ended June 30, 2022. At June 30, 2023, VHPB had $10,567 in outstanding right-to-use lease contracts. Additional information on VHPB's right-to-use lease contracts can be found in note 7 on page 28 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Throughout 2022 the Federal Reserve continued to increase rates for the remainder of calendar year 2022 and fiscal year 2023. From July 2022 to June 2023, the Federal Funds rate went from 2.25% to 5.25%. As a result, the average 30-year mortgage rate in the private sector went from approximately 5% to 7%. These rate increases created a significant advantage for the VHPB and the Mississippi veterans seeking financing. The board decided to keep rates at 2.5% for a 1–15-year commitment and 2.75% for a 16–30-year commitment. With the agency's favorable rates, now 2-3% lower than the private sector, the agency began to see a flood of applications from July through the end of the fiscal year, June 2023.

The board would keep things the same until November. The hesitancy to raise rates created a flurry of activity for almost the entire year. By October 2022 the staff realized we were rapidly reaching our midyear legislative spending authority max of $25m. To reduce demand and keep from exceeding our spending authority, the board raised rates in November. The new 1–15-year rate would be 3.5% and the 16–30-year rate would move to 4%. The new rates would go into effect 1 January 2023.

In December, a waiting list was put in place. With the Department of Finance and Administration approval, we accessed the agency's $10m escalation clause in our appropriation bill to increase the agency's loan spending authority. It was also brought to the board's attention that beginning 1 January 2023 the maximum loan amount the VA would guarantee was increasing to $726,200. Until this point, the VA guaranty maximum loan amount and VHPB maximum loan amount were the same. Due to issues created by the depleted spending authority, and the rapid reduction of loan funds the board decided to reduce the maximum loan amount to $500k. The hope was the increased rate, and the reduction of the maximum loan amount would slow down the number of applications coming into the pipeline. Other measures taken in December included suspending all external refinances, applications for construction loans with more than 60 days to completion and applications for Veterans without a property.

The request for the additional $10m in spending authority was approved by the legislature in January. The legislature also approved an increase in loan spending authority for the already approved budget for 2024. With the loan spending authority issue being resolved, the board decided to reduce the maximum loan amount further from the $500k approved in December to $400k.

Not seeing a reduction in the number of applications, the board decided to raise rates again in May and June respectively. The agency would close the fiscal year with the rate for a 1–15-year commitment at 5% and the 16–30-year commitment at 5.5%. After this increase, the agency has seen a significant decrease in the number of applications. Eliminating applications without a contract/property has made the loan pipeline more manageable in terms of number of applications as well as anticipated dollars necessary to close the loans. Currently the dollar amount of the loans being closed monthly is close to balancing with the dollar amount of incoming cash receipts.

Other than the external economic influences, the agency rolled out a new processing software in March of 2023. The new software is compatible with the online application system utilized on our website. It is also more user-friendly for the processors. The software, Path, is designed to enable processors to take an application all the way to closing without passing the application to other departments or individuals. There has been a steep learning curve, and the processor position has had to be redefined. Path allows for a workflow to be built within the system, so it is easy to track the progress of an application from application received to closing. Once the processors are fully proficient with Path and their new duties, Path will create huge efficiencies within the processing department. The first loan processed in Path was closed in June and the process has only improved since that first loan. Our new Operations Manager is continuously looking for ways to make the system better and more efficient for the processors.

In servicing, we reached out to the software company for our servicing software, Finastra, to find out what efficiencies they could recommend to us that we might not be utilizing. We found out quickly that they were no longer supporting the software and were phasing out all remaining contracts. We immediately began searching for a new provider. We have since signed with a new provider, The Mortgage Office, and are finishing the rollout of this software. I feel we have only begun to see the potential efficiencies that will be a result of this new software.

As we are now halfway into the 2024 fiscal year. We will continue to look for a better way in everything we do. As the processors and servicing department incorporate their new software into their daily routine, we will continue to look for improvements. We will continue our focus on making sure the right people are in the right place to maximize their potential. Cross training staff and making sure everyone in a department knows and understands what the person next to them is doing is pertinent. The rollout of these new software solutions will hopefully make this process more streamlined and easier to learn.

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

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUND
STATEMENT OF NET POSITION
AT JUNE 30, 2023

ASSETS	
Current assets:	
Cash and cash equivalents:	
Equity in internal investment pool	$ 65,496,593
Cash in banks	39,446
Receivables, net:	
Advances to cafeteria plan	3,111
Interest receivable on loans	562,090
Loans receivable, current portion	6,878,656
Prepaid expenses	3,746
Total current assets	72,983,642
Noncurrent assets:	
Loans receivable, net of current portion	191,442,775
Capital assets:	
Land	226,000
Depreciable capital assets, net	854,415
Right-to-use lease assets, net	10,567
Total noncurrent assets	192,533,757
Total assets	265,517,399
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	482,408
Deferred outflows related to OPEB liability	16,674
Total deferred outflows of resources	499,082
	$ 266,016,481

See the Notes to Financial Statements

STATE OF MISSISSIPPI VETERANS' HOME PURCHASE BOARD

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUND
STATEMENT OF NET POSITION - CONTINUED
AT JUNE 30, 2023

LIABILITIES	
Current liabilities:	
Warrants payable	$ 1,256,570
Accounts payable	126,402
Funds held for others	32,902
Due to other funds	1,269
Compensated absences	4,319
Right-to-use lease contracts	4,200
Total current liabilities	1,425,662
Noncurrent liabilities:	
Compensated absences	86,411
Right-to-use lease contracts	6,657
Net pension liability	2,741,741
Net OPEB liability	96,755
Total noncurrent liabilities	2,931,564
Total liabilities	4,357,226
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to OPEB liability	42,486
Total deferred inflows of resources	42,486
NET POSITION	
Net investment in capital assets	1,090,982
Unrestricted	260,525,787
Total net position	261,616,769
	$ 266,016,481

See the Notes to Financial Statements.

STATE OF MISSISSIPPI VETERANS' HOME PURCHASE BOARD

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023

OPERATING REVENUES	
Interest on loans	$ 5,616,555
Fees	228,471
Other	2,643
Total operating revenues	5,847,669
OPERATING EXPENSES	
General and administrative	1,275,094
Contractual services	328,163
Commodities	47,480
Loan closing costs	167,873
Depreciation and amortization	35,867
Total operating expenses	1,854,477
Operating income	3,993,192
NONOPERATING REVENUES (EXPENSES)	
Interest and other investment income, net	1,349,704
Income before transfers	5,342,896
TRANSERS	
Transfers in	136,283
Transfers out	(136,283)
Net transfers	-
CHANGE IN NET POSITION	5,342,896
NET POSITION, BEGINNING OF YEAR	256,273,873
NET POSITION, END OF YEAR	$ 261,616,769

See the Notes to Financial Statements.

STATE OF MISSISSIPPI VETERANS' HOME PURCHASE BOARD

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from (to) borrowers - miscellaneous	$ 256,094
Cash payments to suppliers for goods and services	(1,743,112)
Cash payments to employees for services	(1,271,541)
Other operating cash receipts (disbursements), net	(1,549)
Principal and interest received on loans	21,651,524
Issuance of loans	(53,392,473)
Net cash used in operating activities	(34,501,057)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in	136,283
Transfers out	(136,283)
Net cash provided by noncapital financing activities	-
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and other investment income - nonoperating	1,092,911
NET DECREASE IN CASH	(33,408,146)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	98,944,185
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 65,536,039
CLASSIFIED ON THE BALANCE SHEET AS FOLLOWS:	
Equity in internal investment pool	$ 65,496,593
Cash in banks	39,446
Cash and cash equivalents	$ 65,536,039

See the Notes to Financial Statements.

STATE OF MISSISSIPPI VETERANS' HOME PURCHASE BOARD
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUND
STATEMENT OF CASH FLOWS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2023

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 3,993,192
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	35,867
(Increase) decrease in:	
Interest receivable on loans	(107,802)
Loans receivable	(38,506,272)
Increase (decrease) in:	
Warrants payable	36,844
Accounts payable	21,616
Funds held for others	36,190
Due to other funds	306
Due to other governments	(95)
Compensated absences	(3,360)
Net pension liability and related deferred inflows and outflows of resources	(20,050)
Net OPEB liability and related deferred inflows and outflows of resources	12,507
Total adjustments	(38,494,249)
Net cash used in operating activates	$ (34,501,057)
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Right-to-use lease assets GASB 87	$ 10,567
Right-to-use asset lease contract GASB 87	$ (10,567)

See the Notes to Financial Statements.

STATE OF MISSISSIPPI VETERANS' HOME PURCHASE BOARD

FIDUCIARY ACTIVITIES - CUSTODIAL FUND
STATEMENT OF FIDUCIARY NET POSITION
AT JUNE 30, 2023

ASSETS	
Current assets:	
Equity in internal investment pool	$ 1,424,032
Cash in banks	100,839
	$ 1,524,871
LIABILITIES	
Current liabilities:	
Warrants payable	$ 159,467
FIDUCIARY NET POSITION	
Restricted - held for borrowers' escrow	1,365,404
	$ 1,524,871

See the Notes to Financial Statements.

STATE OF MISSISSIPPI VETERANS' HOME PURCHASE BOARD

FIDUCIARY ACTIVITIES - CUSTODIAL FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023

ADDITIONS	
Borrowers' escrow deposits	$ 4,761,474
DEDUCTIONS	
Escrow payments for insurance and taxes	4,833,194
Change in fiduciary net position	(71,720)
NET POSITION AT BEGINNING OF YEAR	1,437,124
NET POSITION AT END OF YEAR	$ 1,365,404

See the Notes to Financial Statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

State of Mississippi Veterans' Home Purchase Board (VHPB) was established in 1936 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.

Basis of Presentation

The accompanying financial statements of VHPB conforms to the pronouncements of the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles.

Fund Accounting

The financial activities of VHPB are recorded in individual funds used to report financial position, changes in financial position and cash flows. 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:

> Business-type Activities - Enterprise Fund - This is the operating fund which accounts for the transactions of VHPB related to providing and processing mortgage loans.
>
> Fiduciary Activities - Custodial Fund - This fund accounts for the escrow transactions of the mortgage loans provided by VHPB.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting

The Enterprise Fund presents its financial statements 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.

The Enterprise Fund 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.

The Custodial Fund presents its financial statements using the economic resources measurement and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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.

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.

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 and fixed interest rates for the term of the loan. The maximum loan amount is $400,000 plus a funding fee at June 30, 2023. The maximum loan term is thirty years.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Loans Receivable - Continued

Inasmuch as 92.66% 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.

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.

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

Property Class	Years
Buildings and improvements	40
Machinery and equipment	3 - 10

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.

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 four pension related items and three other postemployment benefits related items that qualify for reporting in this category.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Outflows and Inflows of Resources - Continued

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 three 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.

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.

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. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value as determined by the State.

Net Position

Enterprise fund

Net 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, 2023.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position - Continued

Custodial fund

Restricted – held for borrowers' escrow – represents the amount of restricted funds available for borrowers' property taxes and insurance.

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.

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.

Upcoming New Accounting Pronouncements

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. 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62, effective for financial reporting periods beginning after June 15, 2023.
- GASB Statement No. 101, *Compensated Absences*, effective for financial reporting periods beginning after June 15, 2023.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Advertising

Advertising costs are expensed as incurred. VHPB did not incur any advertising costs during the year ended June 30, 2023.

NOTE 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, 2023, the market value of the State's total pooled investments for State agencies was approximately $10.9 billion, and the average remaining life of the securities invested was 898 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.

NOTE 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, 2023, was $39,446 and the corresponding bank balances were $102,051. 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.

NOTE 4 – LOANS RECEIVEABLE

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. In 1946, initial funding of $5,000,000 was appropriated from the State of Mississippi’s general fund. Subsequent appropriations during the Korean and Vietnam wars resulted in net appropriations since 1946 of $9,600,000.

Interest rates on loans vary from 5.00% to 5.50% and loans are generally repaid over 30 years.

A summary of loans receivable follows:

Guaranteed by the United States Veterans' Administration	$ 183,771,357
Non-guaranteed loans	14,550,074
Total loans receivable	198,321,431
Less loans receivable, current portion	6,878,656
Loans receivable, net of current portion	$ 191,442,775

NOTE 5 – LOANS RECEIVEABLE – CONTINUED

Loans mature at various intervals through June 30, 2053. The scheduled principal payments receivable on loans maturing in subsequent years are as follows:

Year Ending June 30,	
2024	$ 6,878,656
2025	7,022,858
2026	7,217,048
2027	7,353,237
2028	7,480,676
Thereafter	162,368,956
	$ 198,321,431

As of June 30, 2023, VHPB had 23 loans with outstanding balances totaling $2,415,938 in delinquent status. Management of VHPB believes that sufficient remedies are available under the loan agreements to prevent any material losses on these loans.

VHPB may extend loans to board members, 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, 2023, there was one loan outstanding in this group.

NOTE 6 – CAPITAL ASSETS

A summary of capital asset activity for the year ended June 30, 2023, follows:

	Beginning Balance 6/30/2022	Increase	Decrease	Ending Balance 6/30/2023
Capital assets, not being depreciated:				
Land	$ 226,000	$ -	$ -	$ 226,000
Capital assets, being depreciated:				
Buildings and improvements	1,583,400	-	-	1,583,400
Furniture and equipment	166,206	-	-	166,206
Vehicles	28,121	-	-	28,121
Total capital assets being depreciated	1,777,727	-	-	1,777,727
Less accumulated depreciation for:				
Buildings and improvements	(704,613)	(31,668)	-	(736,281)
Furniture and equipment	(157,523)	(4,199)	-	(161,722)
Vehicles	(25,309)	-	-	(25,309)
Total accumulated depreciation	(887,445)	(35,867)	-	(923,312)
Capital assets being depreciated, net	890,282	(35,867)	-	854,415
Intangible right-to-use assets:				
Leased equipment	26,534	(7,327)	-	19,207
Less accumulated amortization	(7,616)	(1,024)	-	(8,640)
Intangible right-to-use assets, net	18,918	(8,351)	-	10,567
Capital assets, net	$ 1,135,200	$ (44,218)	$ -	$ 1,090,982

NOTE 7 – RIGHT-TO-USE LEASE CONTRACTS

VHPB leases office equipment for various terms under long-term, non-cancelable (without mutual agreement) right-to-use lease contracts. These leases expire at various dates through fiscal year 2027.

Total future minimum lease payments under right-to-use lease contracts are as follows:

	Principal	Interest	Total
2024	$ 4,200	$ 320	$ 4,520
2025	2,843	204	3,047
2026	2,953	94	3,047
2027	861	8	869
Total minimum lease payments	$ 10,857	$ 626	$ 11,483

NOTE 8 – NONCURRENT LIABILITIES

A summary of changes in the noncurrent liabilities during the year ended June 30, 2023 follows:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023	Due Within One Year
Compensated absences	$ 83,433	$ 53,437	$ (46,140)	$ 90,730	$ 4,319
Right-to-use lease contract	19,207	-	(8,350)	10,857	4,200
Net pension liability	2,058,767	930,679	(247,705)	2,741,741	-
Net OPEB liability	100,115	30,027	(33,387)	96,755	-
Noncurrent liabilities	$ 2,261,522	$ 1,014,143	$ (335,582)	$ 2,940,083	$ 8,519

NOTE 9 – 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.

NOTE 10 – 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 is available at www.pers.ms.gov.

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

NOTE 10 – PENSION PLAN – CONTINUED

(25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee’s earnings during the four highest compensated years of creditable service.

Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter.

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, 2023 was 17.40% 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. VHPB’s contributions to PERS for the fiscal years ending June 30, 2023, 2022, and 2021 were $159,582, $161,148 and $161,404, respectively, which equaled the required contributions for each year.

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

At June 30, 2023, VHPB reported a liability of $2,741,741 for its proportionate share of the plan’s net pension liability. The net pension liability for fiscal year 2023 was measured as of June 30, 2023, 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. VHPB’s proportionate share used to calculate the June 30, 2023 net pension liability was .013322 percent, which was based on a measurement date of June 30, 2022. This was a decrease of 0.000607 percent from its proportionate share used to calculate the June 30, 2022 net pension liability, which was based on a measurement date of June 30, 2021.

NOTE 10 – PENSION PLAN - CONTINUED

For the year ended June 30, 2023, VHPB recognized pension expense of $311,338. At June 30, 2023, VHPB reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 133,883	$ -
Changes in proportion and differences between VHPB contributions and proportionate share of contributions	-	-
VHPB contributions subsequent to the measurement date	165,694	-
Differences between expected and actual experience	38,821	-
Net difference between projected and actual earnings on plan investments	144,010	-
Totals	$ 482,408	$ -

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

The $165,694 reported 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2024	$ 44,699
2025	97,007
2026	175,008
Total	$ 316,712

NOTE 10 – PENSION PLAN - CONTINUED

Actuarial Assumptions

The total pension liability as of the June 30, 2023 measurement date, was determined by an actuarial valuation prepared as of June 30, 2021. The following actuarial assumptions are applied to all periods included in the measurement:

Inflation	2.40 percent
Salary increases	2.65 - 17.90 percent, including inflation
Investment rate of return	7.55 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the PubS.H-2010(B) Retiree Table with the following adjustments: For males, 95% of male rates up to age 60, 110% for ages 61 to 75 and 101% for ages above 77. For females, 84% of female rates up to age 72 and 100% for ages above 76. Mortality rates for disability retirees were based on the PubG.H-2010 Disabled Table adjusted 134% for males and 121% for females. Mortality rates for Contingent Annuitants were based on the PubS.H-2010(B) Contingent Annuitant Table, adjusted 97% for males and 110% for females Mortality rates will be projected generationally using the MP-2020 projection scale to account for future improvements in life expectancy.

The actuarial assumptions used for the valuation were based on the results of an actuarial experience study for the four year period July 1, 2016 to June 30, 2020. The experience report is dated April 20, 2021.

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

NOTE 10 – PENSION PLAN - CONTINUED

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	25.00%	4.60%
International Equity	20.00	4.50%
Global Equity	12.00	4.85%
Fixed Income	18.00	1.40%
Real Estate	10.00	3.65%
Private Equity	10.00	6.00%
Private Infrastructure	2.00	4.00%
Private Credit	2.00	4.00%
Cash Equivalents	1.00	(0.10)%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.55 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 of 9.00 percent and that employer contributions will be made at the current contribution rate of 17.40 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 table presents VHPB's proportionate share of the net pension liability calculated using the discount rate of 7.55 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 (6.55 percent) or 1-percentage-point higher (8.55 percent) than the current rate:

	1% Decrease (6.55%)	Current Discount Rate (7.55%)	1% Increase (8.55%)
VHPB's proportionate share of the net pension liability	$ 3,578,252	$ 2,741,741	$ 2,052,080

NOTE 10 – PENSION PLAN - CONTINUED

Pension Plan Fiduciary Net Position

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

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS PLAN

<u>General Information about the Other Postemployment Benefits (OPEB) Plan</u>

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. The Plan issues a publicly available financial report that can be obtained at Mississippi Department of Finance and Administrations' website (http://knowyourbenefits.dfa.ms.gov/).

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 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.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS PLAN – CONTINUED

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 $3,356 for the year ended June 30, 2023.

<u>OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB</u>

VHPB reported a liability of $96,755 at June 30, 2023 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2023 was measured as of June 30, 2022, 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 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, 2022, VHPB's proportion was 0.01453637 percent. This was an decrease of 0.001017 percent from the proportionate share as of the measurement date of June 30, 2021.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS PLAN – CONTINUED

For the year ended June 30, 2023, VHPB recognized OPEB decrease of $9,671. At June 30, 2023, VHPB reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 11,170	$ 6,631
Changes in proportion and differences between VHPB contributions and proportionate share of contributions	5,440	8,227
VHPB contributions subsequent to the measurement date	3,356	-
Differences between expected and actual experience	59	27,628
Net difference between projected and actual earnings on plan investments	5	-
Totals	$ 20,030	$ 42,486

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

The $3,356 reported in fiscal year 2023 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Amount
2024	$ (3,192)
2025	(6,000)
2026	(6,530)
2027	(4,911)
2028	(5,179)
Total	$ (25,812)

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS PLAN – CONTINUED

Actuarial Assumptions

The total OPEB liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.40 percent
Salary increases, including wage inflation	2.65 percent - 17.90 percent
Municipal Bond Index Rate:	
Measurement date	3.37 percent
Prior measurement date	2.13 percent
Year fiduciary net position is to be depleted:	
Measurement date	2022
Prior measurement date	2021
Single Equivalent Interest Rate, net of OPEB plan investment expense, including price inflation:	
Measurement date	3.37 percent
Prior measurement date	2.13 percent
Health care cost trends:	
Medicare supplement claims pre-Medicare	7.00% for 2023 decreasing to an ultimate rate of 4.50% by 2029

Mortality rates were based on the PubS.H-2010(B) Retiree Table with the following adjustments: For males, 95% of male rates up to age 60, 110% for ages 61 to 75 and 101% for ages above 77. For females, 84% of the female rates up to age 72 and 100% for ages above 76. Mortality rates for disability retirees were based on the PubG.H-2010 Disabled Table adjusted 134% for males and 121% for females. Mortality rates for Contingent Annuitants were based on the PubS.H-2010(B) Contingent Annuitant Table, adjusted 97% for males and 110% for females. Mortality rates will be projected generationally using the MP-2020 projection scale to account for future improvements in life expectancy.

The demographic actuarial assumptions used in the June 30, 2022 valuation were based on the results of the last actuarial experience study, dated April 20, 2021.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS PLAN – CONTINUED

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, 2022 valuation were based on a review of recent plan experience done concurrently with the June 30, 2022 valuation.

The long-term investment rate of return on OPEB Plan investments is 2.13%.

Discount Rate

The discount rates used to measure the total OPEB liability at June 30, 2022 was 3.37%. Since the prior measurement date, the discount rate has changed from 2.13% to 3.37%.

The discount rate 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 monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate (formerly published monthly by the Board of Governors of the Federal Reserve System).

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 (1.13 percent) or 1-percentage-point higher (3.13 percent) than the current discount rates:

	Discount Rates		
	1% Decrease (1.13%)	Current (2.13%)	1% Increase (3.13%)
VHPB's proportionate share of the net OPEB liability	$ 103,567	$ 96,755	$ 85,043

Sensitivity of VHPB's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare 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 healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS PLAN – CONTINUED

	Health Care Cost Trend Rates		
Description	1% Decrease	Current	1% Increase
VHPB's proportionate share of the net OPEB liability	$ 86,668	$ 96,755	$ 101,377

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in a separately issued report available on the Mississippi Department of Finance and Administrations' website (http://knowyourbenefits.dfa.ms.gov/).

NOTE 12 – RISK MANAGEMENT

VHPB is exposed to various risks of loss related to torts; theft of, damage to, and 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, 2023.

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.

NOTE 13 – RISK MANAGEMENT – CONTINUED

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

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

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the auditor’s 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 (UNAUDITED)
PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF MISSISSIPPI -
SCHEDULE OF VHPB'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019
VHPB's proportion of the net pension liability	0.013322%	0.013929%	0.013931%	0.013013%	0.013709%
VHPB's proportionate share of the net pension liability	$ 2,741,741	$ 2,058,767	$ 2,696,880	$ 2,289,243	$ 2,280,214
VHPB's covered payroll	$ 952,264	$ 926,144	$ 927,606	$ 847,525	$ 875,447
VHPB's proportionate share of the net pension liability as a percentage of its covered payroll	287.92%	222.29%	290.74%	270.11%	260.46%
Plan fiduciary net position as a percentage of the total pension liability	59.93%	70.44%	58.97%	61.59%	62.54%

	2018	2017	2016	2015	2014
VHPB's proportion of the net pension liability	0.012543%	0.012037%	0.011659%	0.011351%	0.009679%
VHPB's proportionate share of the net pension liability	$ 2,085,072	$ 2,150,109	$ 1,802,251	$ 1,377,804	$ 1,341,116
VHPB's covered payroll	$ 804,609	$ 770,032	$ 728,407	$ 693,611	$ 580,778
VHPB's proportionate share of the net pension liability as a percentage of its covered payroll	259.14%	279.22%	247.42%	198.64%	230.92%
Plan fiduciary net position as a percentage of the total pension liability	61.49%	57.47%	61.70%	67.21%	61.02%

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.

See the Notes to Required Supplementary Information.

STATE OF MISSISSIPPI VETERANS' HOME PURCHASE BOARD

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF MISSISSIPPI -
SCHEDULE OF VHPB'S CONTRIBUTIONS
LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019
Statutorily required contribution	$ 159,582	$ 159,898	$ 161,148	$ 161,404	$ 133,485
Contributions in relation to the statutorily required contribution	159,582	159,898	161,148	161,404	133,485
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
VHPB's covered payroll	$ 918,954	$ 918,954	$ 926,144	$ 927,606	$ 847,525
Contributions as a percentage of covered payroll	17.37%	17.40%	17.40%	17.40%	15.75%

	2018	2017	2016	2015	2014
Statutorily required contribution	$ 137,883	$ 126,726	$ 121,280	$ 114,724	$ 109,244
Contributions in relation to the statutorily required contribution	137,883	126,726	121,280	114,724	109,244
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
VHPB's covered payroll	$ 875,447	$ 804,609	$ 770,032	$ 728,407	$ 693,611
Contributions as a percentage of covered payroll	15.75%	15.75%	15.75%	15.75%	15.75%

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.

See the Notes to Required Supplementary Information.

STATE OF MISSISSIPPI VETERANS' HOME PURCHASE BOARD

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
MISSISSIPPI STATE AND LOCAL EMPLOYEES' LIFE AND HEALTH INSURANCE OPEB PLAN -
SCHEDULE OF VHPB'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITLY
LAST TEN FISCAL YEARS[1]

	2023	2022	2021
VHPB's proportion of the net OPEB liability	0.01453637%	0.01555345%	0.01470777%
VHPB's proportionate share of the net OPEB liability	$ 96,755	$ 100,115	$ 114,457
VHPB's covered payroll	$ 918,954	$ 926,144	$ 927,606
VHPB's proportionate share of the net OPEB liability as a percentage of its covered payroll	10.53%	10.81%	12.34%
Plan fiduciary net position as a percentage of the total OPEB liability	0.21%	0.16%	0.13%

	2020	2019	2018
VHPB's proportion of the net OPEB liability	0.01488380%	0.01519095%	0.01487202%
VHPB's proportionate share of the net OPEB liability	$ 126,295	$ 117,510	$ 116,687
VHPB's covered payroll	$ 847,525	$ 875,447	$ 804,609
VHPB's proportionate share of the net OPEB liability as a percentage of its covered payroll	14.90%	13.42%	14.50%
Plan fiduciary net position as a percentage of the total OPEB liability	0.12%	0.13%	0.00%

[1]GASB 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.

See the Notes to Required Supplementary Information.

STATE OF MISSISSIPPI VETERANS' HOME PURCHASE BOARD

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
MISSISSIPPI STATE AND LOCAL EMPLOYEES' LIFE AND HEALTH INSURANCE OPEB PLAN -
SCHEDULE OF VHPB'S CONTRIBUTIONS
LAST TEN FISCAL YEARS[1]

	2023	2022	2021
Actuarially determined employer contribution	$ 8,560	$ 9,159	$ 7,322
Contributions in relation to the actuarially determined contribution	2,919	4,024	4,565
Annual contribution deficiency	$ 5,641	$ 5,135	$ 2,757
VHPB's covered payroll	$ 918,954	$ 926,144	$ 927,606
Contributions as a percentage of covered payroll	0.32%	0.43%	0.49%

	2020	2019	2018
Actuarially determined employer contribution	$ 6,909	$ 7,150	$ 6,495
Contributions in relation to the actuarially determined contribution	5,062	5,081	4,591
Annual contribution deficiency	$ 1,847	$ 2,069	$ 1,904
VHPB's covered payroll	$ 847,525	$ 875,447	$ 804,609
Contributions as a percentage of covered payroll	0.60%	0.58%	0.57%

[1]GASB 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 c June 30 of the year prior to the fiscal year presented.

See the Notes to Required Supplementary Information.

PENSION SCHEDULES

NOTE 1 – CHANGES OF ASSUMPTIONS

There were no changes of assumptions in the plan year ended June 30, 2022.

NOTE 2 – CHANGES IN BENEFIT PROVISIONS

There were no changes to benefit provisions in the plan year ended June 30, 2022

NOTE 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 plan fiscal year in which the contributions are reported (June 30, 2020 valuation for the June 30, 2022 plan fiscal year end). 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	27.7 years
Asset valuation method	5-year smoothed market
Price inflation	2.75 percent
Salary increase	3.00 percent to 18.25 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

OPEB SCHEDULES

NOTE 1 – CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The following changes in actuarial assumptions and methods were made for the plan year ended June 30, 2022:

- The SEIR was changed from 2.13% for the prior Measurement Date to 3.37% for the current Measurement Date.

- The expectation of retired life mortality was changed to the PubS.H-2010(B) Retiree Table with the following adjustments:

  - For males, 95% of male rates up to age 60, 110% for ages 61 to 75, and 101% for ages above 77.
  - For females, 84% of female rates up to age 72, 100% for ages above 76.
  - Projection scale MP-2020 will be used to project future improvements in life expectancy generationally.

- The expectation of disabled mortality was changed to PubG.H-2010 Disabled Table for disabled retirees with the following adjustments:

  - For males, 134% of male rates at all ages.
  - For females, 121% of female rates at all ages.
  - Projection scale MP-2020 will be used to project future improvements in life expectancy generationally

- The expectation of contingent annuitant mortality was based on the PubS.H-2010(B) Contingent Annuitant Table with the following adjustments:

  - For males, 97% of male rates at all ages.
  - For females, 110% of female rates at all ages.
  - Projection scale MP-2020 will be used to project future improvements in life expectancy generationally

- The price inflation assumption was reduced from 2.75% to 2.40%.

- The wage inflation assumption was reduced from 3.00% to 2.65%.

- Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to reflect actual experience more closely.

OPEB SCHEDULES – CONTINUED

NOTE 2 – CHANGE TO BENEFIT TERMS

The following changes to benefit terms were made during the plan year ended June 30, 2022:

- The schedule of monthly retiree contributions was increased as of January 1, 2023.

NOTE 3 – METHOD AND ASSUMPTIONS USED IN CALCULATION 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, 2021 actuarial valuation) were used to determine contribution rates reported in that schedule for the plan year ended June 30, 2022:

Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period	30 years, open
Asset valuation method	Market value of assets
Price inflation	2.75%
Salary increases, including wage inflation	3.00% to 18.25%
Initial health care cost trend rates – Medicare Supplement Claims – Pre-Medicare	6.50%
Ultimate health care cost trend rates – Medicare Supplement Claims – Pre-Medicare	4.75%
Year of ultimate trend rates – Medicare Supplement Claims – Pre-Medicare	2030
Long-term investment rate of return, net of pension plan investment expense, including price inflation	2.13%

1020 Highland Colony Parkway
Suite 500
Ridgeland, MS 39157
601.898.8875
Fax: 601.898.2983

541 B Highway 80 West
Clinton, MS 39056
601.924.6842
Fax: 601.924.6679

200 South Main Street
Yazoo City, MS 39194
662.746.4581
Fax: 662.746.5384

www.mcl.cpa

MATTHEWS CUTRER *and* LINDSAY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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 and the fiduciary activities of State of Mississippi Veterans' Home Purchase Board (VHPB), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise VHPB's basic financial statements and have issued our report thereon dated February 15, 2024.

Report on 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) as a basis or designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of VHPB's internal control. Accordingly, we do not express an opinion on the effectiveness of VHPB's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2023-001 through 2023-003 that we consider to be significant deficiencies.

Report on 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 financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on VHPB's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. VHPB's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Mathews, Cutrer & Lindsay, P.A.

Ridgeland, Mississippi
February 15, 2024

STATE OF MISSISSIPPI VETERANS' HOME PURCHASE BOARD

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2023

SIGNIFICANT DEFICIENCIES

2023-001 Unapplied Credits

Condition: The loan servicing procedures do not allow for ACH loan payments received with discrepancies to be timely investigated, cleared, and applied to the loan.

Criteria: Internal controls should allow for unapplied credits to be reviewed on a regular basis and properly applied to the loan balance in a timely manner after receipt of payment.

Cause: There are no internal control procedures in place to require reviews of unapplied credits on a regular basis.

Effect: Because the unapplied credits were not reviewed on a regular basis, this allowed for ACH loan payments that were redirected to unapplied credits to not be applied to the loan balance.

Repeat Finding: Yes – 2022-001

Recommendation: Policies and procedures should be implemented to ensure unapplied credits are reviewed on a regular basis and properly applied to the loan balance in a timely manner after receipt of payment. A review should be conducted periodically to ensure that these policies are effective.

Views of Responsible Officials and Planned Corrective Actions: In the fiscal year 2024 we have moved to a new servicing software provider. The old software was no longer being updated or improved and did not allow for the automated distribution of payments more than the regular, principal, interest, and escrow. The software now being utilized beginning in January 2024 will automatically apply all payments based on a posting order established by the staff. Anything more than the normal payment will be made according to this posting order.

2023-002 Interest Reported on IRS Form 1098

Condition: The loan servicing procedures do not allow for reconciliation of the mortgage interest payments received during the year with the amount of interest reported on IRS Form 1098.

Criteria: Internal controls should allow for the mortgage interest received to be reconciled to the amount reported on IRS Form 1098 to ensure the amounts reported on the IRS Form 1098 properly reflect the mortgage interest received during the reporting period.

Cause: There are no internal control procedures in place to require the review or reconciliation of the amounts reported on IRS From 1098 for mortgage interest received during the reporting period.

Effect: This allowed for instances in which the interest reported on IRS Form 1098 did not agree with the interest received during the reporting per the loan servicing reports. The IRS Form 1098 reported the interest based on the due date of the payment rather than the actual date received. These discrepancies were noted on two accounts in the sample selected that made their loan payments 10 to 12 months in advance.

Repeat Finding: Yes – 2022-002

Recommendation: Policies and procedures should be implemented for the review and reconciliation of amounts reported on Form 1098 for mortgage interest received to ensure it is accurately calculated for the proper reporting period. We recommend VHPB contact the loan servicing software support team to determine why the interest reported on Form 1098 is not the amount received during the reporting period (calendar year) and take steps necessary to correct this.

Views of Responsible Officials and Planned Corrective Actions: In the fiscal year 2024 we have moved to a new servicing software provider. This new software will give us the ability to produce a 1098 Mortgage Interest Audit Report. This report will allow us to reconcile the reported amounts of interest with interest received during the reporting period. The loan servicing manager will electronically sign and date, time stamp their review in our document storage software DocuPhase .

2023-003 Escrow Reconciliations

Condition: Escrow reconciliations are not reviewed timely as required by VHPB's Reconciliation Policy.

Criteria: VHPB's supervisor must review the escrow reconciliation daily to ensure the escrow subsidiary ledger (ILS) activity with the general ledger (MAGIC System).

Cause: Reviews of the daily escrow reconciliations were not performed timely to ensure internal controls were followed.

Effect: This allowed for instances during the audit that certain outstanding items could not be identified. The daily reconciliation should also include the ending balance of each system and anything outstanding between the two.

Repeat Finding: Yes – 2022-004

Recommendation: Policies and procedures should be implemented to ensure the Servicing Department Supervisor is reviewing regularly the daily reconciliation of the escrow subsidiary ledger (ILS) with the general ledger (MAGIC System) activity as required by the Servicing Department Policies. It is crucial that the reconciliations are performed daily in order to identify and correct any errors or discrepancies in a timely manner. Uncorrected errors or discrepancies in the escrow fund can result in late payment of taxes or insurance and lead to incorrect data used in the annual loan analysis process for determining adjustments to required escrow deposits.

Views of Responsible Officials and Planned Corrective Actions: In the fiscal year 2024 we have moved to a new servicing software provider. Because of this change, the process of performing these reconciliations had to be changed. The new process will incorporate the audit feature built into the new servicing software and the audit feature built into the state accounting system (MAGIC). These 2 reconciliations will be compared and balanced on a weekly and monthly basis. The Servicing Department Manager or Operations Manager will review these reconciliations weekly and the Administration Department (CFO or Accounts Payable Clerk) will review these reconciliations monthly. Once the monthly review is complete, a date time stamp will be applied to the document reconciliation housed in our document management system by the individual performing the reconciliation.

SCHEDULE OF PRIOR FINDINGS AND RESPONSES
JUNE 30, 2023

2022-001 Unapplied Credits – Repeated finding as 2023-001

2022-002 Interest Reported on IRS Form 1098 – Repeated finding as 2023-002

2022-003 Escrow Analyses

Condition: Annual escrow analyses are not performed on all loan accounts as required by VHPB's Tax and Insurance Escrow Policy.

Criteria: VHPB internal controls require an annual escrow analysis on each account in order to make any necessary adjustments to the borrower's escrow payment to cover the upcoming taxes and insurance costs plus any shortages or for reimbursement of any surplus balances.

Cause: Reviews of escrow analyses were not performed to ensure internal controls were followed.

Effect: This allowed for instances in which the escrow analysis was not performed resulting in shortages or surpluses in escrow account balances because the required escrow deposit was not adjusted based on actual insurance and tax costs.

Recommendation: Policies and procedures should be implemented to ensure that an annual escrow analysis is performed for every loan account in accordance with the Tax and Insurance Escrow Policy. This analysis is a critical part of the internal controls over servicing escrow funds.

Views of Responsible Officials and Planned Corrective Actions: We have a staff new auditor in place that has been working with several projects for the loan processing department. Following this audit, she will begin to work with the loan servicing department to help refine their process. As an auditor, she will review all loan payments, tax payments, and insurance payments to make sure credits are applied timely and correctly. To help her, we are putting a work flow management system in place with our data management system to facilitate reporting reconcilements and payment tracking more easily. Any deficiencies noted will be reported back to the operations manager, loan servicing supervisor and the Executive Director for corrective action. Specifically, the Loan Servicing department will work to ensure that an escrow analysis is performed for every account in accordance with VHPB's Tax and Insurance Escrow Policy.

Current Status: VHPB has hired a new staff person who conducts analysis of escrow regularly at the loan anniversary date.

2022-004 Escrow Reconciliations -Repeated finding as 2023-003 www.mcl.cpa

VETERANS' HOME PURCHASE BOARD OF THE STATE OF MISSISSIPPI

FINANCIAL AUDIT FINDINGS

March 26, 2024

Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P. O. Box 956
Jackson, MS 39205-0956

Dear Mr. White:

An independent financial audit of the Veterans' Home Purchase Board was conducted for the period of 1 July 2022 through 30 June 2023 by Matthews Cutrer and Lindsay, P.A. This audit was performed 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 and the fiduciary activities of the Veterans' Home Purchase Board of Mississippi and the related notes to the financial statements, which collectively comprise VHPB's basic financial statements were all a part of this audit. Below is a list of their findings and the VHPB's responses and corrective actions taken.

AUDIT FINDINGS:

2023-001 Unapplied Credits

Condition: The loan servicing procedures do not allow for ACH loan payments received with discrepancies to be timely investigated, cleared, and applied to the loan.

Criteria: Internal controls should allow for unapplied credits to be reviewed on a regular basis and properly applied to the loan balance in a timely manner after receipt of payment.

Cause: There are no internal control procedures in place to require reviews of unapplied credits on a regular basis.

Effect: Because the unapplied credits were not reviewed on a regular basis, this allowed for ACH loan payments that were redirected to unapplied credits to not be applied to the loan balance.

Repeat Finding: Yes – 2022-001

***Recommendation*:** Policies and procedures should be implemented to ensure unapplied credits are reviewed on a regular basis and properly applied to the loan balance in a timely manner after receipt of payment. A review should be conducted periodically to ensure that these policies are effective.

***Views of Responsible Officials and Planned Corrective Actions*:** In the fiscal year 2024 we have moved to a new servicing software provider. The old software was no longer being updated or improved and did not allow for the automated distribution of payments more than the regular, principal, interest, and escrow. The software now being utilized beginning in January 2024 will automatically apply all payments based on a posting order established by the staff. Anything more than the normal payment will be made according to this posting order.

2023-002 Interest Reported on IRS Form 1098

***Condition*:** The loan servicing procedures do not allow for reconciliation of the mortgage interest payments received during the year with the amount of interest reported on IRS Form 1098.

***Criteria*:** Internal controls should allow for the mortgage interest received to be reconciled to the amount reported on IRS Form 1098 to ensure the amounts reported on the IRS Form 1098 properly reflect the mortgage interest received during the reporting period.

***Cause*:** There are no internal control procedures in place to require the review or reconciliation of the amounts reported on IRS From 1098 for mortgage interest received during the reporting period.

***Effect*:** This allowed for instances in which the interest reported on IRS Form 1098 did not agree with the interest received during the reporting per the loan servicing reports. The IRS Form 1098 reported the interest based on the due date of the payment rather than the actual date received. These discrepancies were noted on two accounts in the sample selected that made their loan payments 10 to 12 months in advance.

Repeat Finding: Yes – 2022-002

***Recommendation*:** Policies and procedures should be implemented for the review and reconciliation of amounts reported on Form 1098 for mortgage interest received to ensure it is accurately calculated for the proper reporting period. We recommend VHPB contact the loan servicing software support team to determine why the interest reported on Form 1098 is not the amount received during the reporting period (calendar year) and take steps necessary to correct this.

Views of Responsible Officials and Planned Corrective Actions: In the fiscal year 2024 we have moved to a new servicing software provider. This new software will give us the ability to produce a 1098 Mortgage Interest Audit Report. This report will allow us to reconcile the reported amounts of interest with interest received during the reporting period. The loan servicing manager will electronically sign and date, time stamp their review in our document storage software DocuPhase.

2023-003 Escrow Reconciliations

***Condition*:** Escrow reconciliations are not reviewed timely as required by VHPB's Reconciliation Policy.

***Criteria*:** VHPB's supervisor must review the escrow reconciliation daily to ensure the escrow subsidiary ledger (ILS) activity with the general ledger (MAGIC System).

***Cause*:** Reviews of the daily escrow reconciliations were not performed timely to ensure internal controls were followed.

***Effect*:** This allowed for instances during the audit that certain outstanding items could not be identified. The daily reconciliation should also include the ending balance of each system and anything outstanding between the two.

Repeat Finding: Yes – 2022-004

Recommendation: Policies and procedures should be implemented to ensure the Servicing Department Supervisor is regularly reviewing the daily reconciliation of the escrow subsidiary ledger (ILS) with the general ledger (MAGIC System) activity as required by the Servicing Department Policies. It is crucial that the reconciliations are performed daily in order to identify and correct any errors or discrepancies in a timely manner. Uncorrected errors or discrepancies in the escrow fund can result in late payment of taxes or insurance and lead to incorrect data used in the annual loan analysis process for determining adjustments to required escrow deposits.

Views of Responsible Officials and Planned Corrective Actions: In the fiscal year 2024 we have moved to a new servicing software provider. Because of this change, the process of performing these reconciliations had to be changed. The new process will incorporate the audit feature built into the new servicing software and the audit feature built into the State Accounting System (MAGIC). These 2 reconciliations will be compared and balanced on a weekly and monthly basis. The Servicing Department Manager or Operations Manager will review these reconciliations weekly and the Administration Department (CFO or Accounts Payable Clerk) will review these reconciliations monthly. Once the monthly review is complete, a date time stamp will be applied to the document reconciliation housed in our document management system by the individual performing the reconciliation.

Regards,

John B. Kaiser, Jr
Executive Director
Veterans' Home Purchase
Board of Mississippi