West Virginia Housing Development Fund

AUDITED FINANCIAL STATEMENTS

For the years ended June 30, 2017 and 2016

Audited Financial Statements

WEST VIRGINIA HOUSING DEVELOPMENT FUND

For the Years Ended June 30, 2017 and 2016

Audited Financial Statements

Required Supplementary Information

GIBBONS&KAWASH
Certified Public Accountants

300 Chase Tower
707 Virginia Street, East
Charleston, West Virginia 25301

Office: 304.345.8400
Fax: 304.345.8451

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
West Virginia Housing Development Fund
Charleston, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities (enterprise fund) and fiduciary fund type activities of the West Virginia Housing Development Fund (the Fund), a component unit of the State of West Virginia, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities (enterprise fund) and the fiduciary fund type activities of the West Virginia Housing Development Fund as of June 30, 2017 and 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, and the schedule of the proportionate share of the net pension liability, the schedule of contributions to the PERS, the schedule of changes in net OPEB liability and related ratios of the postemployment healthcare plan, the schedule of contributions to the postemployment healthcare plan, the schedule of annual rate of return on investments of the postemployment healthcare plan, and the accompanying notes to required supplementary information on pages 40 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Gibbons & Kawash, A.C.

Charleston, West Virginia
August 30, 2017

INTRODUCTION

The West Virginia Housing Development Fund (the Fund) is a public body corporate with statewide responsibility for housing and operates a wide variety of programs to provide safe and affordable housing for residents and families in the State of West Virginia (the State). The Fund is a self-supporting agency and does not receive State appropriations for its operations. Through June 30, 2017, the Fund has provided assistance for more than 121,000 housing or housing-related units.

The permanent staff of the Fund consists of 99 persons as of June 30, 2017, including professional staff members qualified in the fields of accounting, appraisal, finance, law, mortgage underwriting, mortgage loan servicing, secondary mortgage markets, planning, cost estimation, construction, inspection, and housing management. The Fund provides services in these fields for its programs as required and utilizes professional consulting services from time to time to supplement its own staff.

The Fund has 10 bond issues totaling $337,020,000 par amount outstanding under its bond resolutions. The bonds are rated "AAA" by Standard & Poor's Public Ratings Services (S&P) and "Aaa" by Moody's Investors Service, Inc. (Moody's).

The Fund's unsecured long-term general obligation debt pledge is rated "Aaa" by Moody's and "AAA" by S&P. The Fund is the first and only housing finance agency ever to receive such ratings on its long-term general obligation debt pledge. These ratings are not assigned to any particular issue of debt, but rather represent an overall credit assessment of the Fund's long-term general obligation pledge.[1]

The financial transactions of the Fund related to its various programs are reported in the enterprise fund financial statements, which are more fully explained in the Notes to the Financial Statements. These programs consist of the General Account, Bond Programs, Other Loan Programs, Land Development Program, Bond Insurance Account, and Federal Programs. These were established in accordance with the West Virginia Housing Development Fund Act (the Act), the bond resolutions or at management's discretion. The restricted net position of the Fund includes the net position of the Bond Programs, Land Development Program, Bond Insurance Account, and Federal Programs, which are restricted by the bond resolutions, the Act, or federal regulations. The Fund reports one fiduciary type fund, the Welfare Benefit Plan, an irrevocable trust for postemployment healthcare insurance benefits (OPEB) for the Fund's employees. The fiduciary fund's activities benefit the employees of the Fund and the fiduciary fund's resources are not available to support the various programs of the enterprise fund.

As management of the Fund, we offer readers of the Fund's enterprise fund financial statements the following narrative overview and analysis of the Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Fund Net Position as of and for the years ended June 30, 2017, 2016 and 2015.

USING THIS REPORT

This report consists of a series of enterprise fund financial statements: the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Fund Net Position, and the Statements of Cash Flows. These statements provide information about the activities for each period presented.

[1] An explanation of the Moody's ratings may be obtained by writing to Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; an explanation of the S&P ratings may be obtained by writing to Standard & Poor's Public Ratings Services, 55 Water Street, New York, New York 10041. There is no assurance that such ratings will be maintained for any period of time or that such ratings will not be withdrawn or revised downward by Moody's or S&P if, in their judgment, circumstances so warrant. Such actions, if taken, could have an adverse effect on the market price of bonds issued by the Fund.

The Fund prepares financial statements in conformity with accounting principles generally accepted in the United States of America for state housing finance enterprise funds. The enterprise fund Statements of Net Position represent the difference between the assets and liabilities and include all assets and liabilities using the basis of accounting described above. Over time, increases or decreases in the net position are one indicator of whether financial status is improving, stable, or deteriorating. There are also other factors that should be considered when reviewing the operational results, such as changes in the interest rate environment, bond market, changes to state and federal laws governing the Fund's programs, changes to the tax code, and the real estate market in the State. The Statements of Revenues, Expenses, and Changes in Fund Net Position reflect revenues, such as interest on loans, loan-servicing fees, interest on investments, expenses, such as loan fees, program expenses, administrative expenses, and interest on outstanding debt. The Notes to the Financial Statements provide information that is essential to fully understand the data provided in the financial statements.

FINANCIAL HIGHLIGHTS

Following is a comparison of the enterprise fund condensed Statements of Net Position at June 30:

(Dollars in thousands)	**2017**	**2016**	2015
ASSETS			
Current assets	**$ 65,272**	**$ 62,658**	$ 70,335
Noncurrent assets:			
Mortgage loans & Restricted mortgage loans, net of allowance for losses	**648,321**	**665,141**	674,581
Restricted Federal Program mortgage loans, net of allowance for losses	**65,358**	**62,798**	55,176
Restricted cash and cash equivalents	**48,708**	**37,107**	42,408
Investments & Restricted investments	**81,632**	**93,506**	82,223
Capital assets, net of depreciation	**8,663**	**9,032**	9,378
Other assets & Restricted other assets, net of allowance for losses	**6,314**	**7,179**	9,158
Total assets	**924,268**	**937,421**	943,259
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pension and OPEB	**2,244**	**1,974**	906
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	**16,044**	**17,469**	17,466
Accrued interest payable	**1,795**	**1,903**	2,115
Bonds payable	**35,715**	**33,975**	32,765
Noncurrent liabilities:			
Bonds & notes payable, net	**302,056**	**329,905**	358,682
Other liabilities	**71,132**	**66,117**	57,719
Total liabilities	**426,742**	**449,369**	468,747
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension	**316**	**1,489**	1,615
NET POSITION			
Investment in capital assets	**8,663**	**9,032**	9,378
Net position - Restricted	**413,345**	**412,542**	394,353
Net position - Unrestricted	**77,446**	**66,963**	70,072
TOTAL NET POSITION	**$ 499,454**	**$ 488,537**	$ 473,803

Below is additional discussion of the significant financial statement items and the changes in those items over the prior two years due to recent events and activities of the Fund, current economic factors, and other factors affecting financial and programmatic operations.

Current assets

The increase of $2,614,000 (4.2%), in *Current assets* from 2016 to 2017 was primarily due to an increase of $3,813,000 in cash for program disbursements, a decrease of $564,000 in funds held for others due to an increase in escrow disbursements, a decrease of $321,000 due to funds on hand at the end of fiscal year 2016 were used for bond redemptions and a decrease of $212,000 in the balance of Mortgage Loans Held for Sale.

The decrease of $7,677,000 (10.9%), in *Current assets* from 2015 to 2016 was primarily due to a decrease of $4,763,000 in cash at the end of the fiscal year due to program disbursements and a decrease of $2,697,000 in the balance of Mortgage Loans Held for Sale.

Mortgage loans & Restricted mortgage loans, net of allowance for losses

The decrease of $16,820,000 (2.5%) in *Mortgage loans & Restricted mortgage loans, net of allowance for losses* from 2016 to 2017 was primarily due to repayments and loan prepayments of $71,172,000 exceeding originations of $59,583,000 and foreclosures of $5,102,000.

The decrease of $9,440,000 (1.4%) in *Mortgage loans & Restricted mortgage loans, net of allowance for losses* from 2015 to 2016 was primarily due to the sale of mortgage loans in the amount of $10,089,000, net of originations of $75,195,000 exceeding loan prepayments and repayments of $69,511,000 and foreclosures of $5,115,000.

Restricted Federal Program mortgage loans, net of allowance for losses

This line item consists of the United States Department of Housing and Urban Development's (HUD) HOME Investment Program (HOME) mortgage loans. The fluctuations from year to year represent the net HOME program loans originated during the years presented.

Restricted cash and cash equivalents

The increase of $11,601,000 (31.3%) in *Restricted cash and cash equivalents* from 2016 to 2017 was primarily due to a net increase in the balance of funds available to purchase single family mortgage loans.

The decrease of $5,301,000 (12.5%) in *Restricted cash and cash equivalents* from 2015 to 2016 was primarily due to a $6,716,000 decrease due to short-term funds on hand in 2015 invested long-term in 2016, net of a $1,414,000 increase in the balance of funds available to purchase single family mortgage loans.

Investments & Restricted investments

The fluctuations in *Investments and Restricted investments* from year to year is the net effect of investment purchases, redemptions, maturities and amortization and the change in fair value of investments as required by governmental accounting standards. Certain investments are required to be recorded at fair value and the unrealized gains or losses be reported in the enterprise fund Statements of Revenues, Expenses and Changes in Fund Net Position.

The following summary illustrates the changes in *Investments & Restricted investments* as of June 30:

(Dollars in thousands)	**2017**	**2016**	2015
Balance at beginning of fiscal year	**$ 93,506**	**$ 82,223**	$ 97,522
Sales and maturities	**(44,318)**	**(38,750)**	(42,759)
Purchases	**35,995**	**47,930**	28,499
(Decrease) Increase in fair value of investments and amortizations	**(3,551)**	**2,103**	(1,039)
Balance at end of fiscal year	**$ 81,632**	**$ 93,506**	$ 82,223

Capital assets, net of depreciation See *Note A – Capital assets, net of depreciation*

The decrease of $369,000 (4.1%) from 2016 to 2017 was due to depreciation of the Fund's office building, equipment, furnishings and software.

The decrease of $346,000 (3.7%) from 2015 to 2016 was due to depreciation of the Fund's office building, equipment, furnishings and software in the amount of $494,000, net of the purchase of equipment and software of $148,000.

Other assets and Restricted other assets, net of allowance for losses

The decrease of $865,000 (12.0%) in *Other assets and Restricted other assets, net of allowance for losses* from 2016 to 2017 was primarily due to a decrease of $1,201,000 in foreclosed properties and an increase of $243,000 in provision for loan loss.

The decrease of $1,979,000 (21.6%) in *Other assets and Restricted other assets, net of allowance for losses* from 2015 to 2016 was primarily due to a decrease in foreclosed properties of $1,625,000 and an increase of $332,000 for loss provisions on land owned.

Deferred outflows of resources related to pension and OPEB and Deferred inflows of resources related to pension See *Note A – Accounting methods*

Deferred outflows and inflows of resources are directly related to the activity described in Note F to the financial statements in accounting for the changes in the Fund's proportionate share of the West Virginia Public Employees Retirement System's net pension liability and in Note H to the financial statements in accounting for the changes in the Fund's net other postemployment liability.

Accounts payable and other liabilities

The decrease of $1,425,000 (8.2%) in *Accounts payable and other liabilities* from 2016 to 2017 primarily due to a decrease of $1,071,000 in tax and insurance accounts held on behalf of the Fund's various mortgagors and a decrease in the rebate liability of $377,000.

The increase of $3,000 (0.0%) in *Accounts payable and other liabilities* from 2015 to 2016 was primarily due to an increase in the rebate liability of $426,000, a decrease of $338,000 in tax and insurance escrows held on behalf of the Fund's various mortgagors and a decrease of $96,000 in accrued expenses at year-end.

Bonds and notes payable, current and noncurrent

As illustrated in the following schedule, the changes in *Bonds and notes payable* were due to the early redemption or refunding of bonds, scheduled debt service payments, and new bonds and notes issued. The changes in the balance of bonds and notes payable and interest rates generally account for the fluctuations in *Accrued interest payable* in 2017 and 2016. See *Note D – Bonds & Notes payable, current and noncurrent.*

(Dollars in thousands)		**2017**	**2016**	2015
Balance at beginning of the fiscal year				
Bonds payable - current		**$ 33,975**	**$ 32,765**	$ 68,815
Bonds payable - noncurrent		**329,905**	**358,682**	348,020
Debt issued:	Housing Finance Bonds	**39,505**	**70,060**	99,525
	Other Loan Programs note payable	**250**	**-**	250
Debt paid:	Scheduled debt service - Bonds & notes payable	**(27,196)**	**(24,458)**	(23,490)
	Early redemptions and refundings	**(38,495)**	**(72,880)**	(101,225)
Amortization of bond premiums		**(173)**	**(289)**	(448)
Balance at end of the fiscal year		**$ 337,771**	**$ 363,880**	$ 391,447
Bonds payable - current		**$ 35,715**	**$ 33,975**	$ 32,765
Bonds & notes payable - noncurrent		**302,056**	**329,905**	358,682
Total bonds & notes payable		**$ 337,771**	**$ 363,880**	$ 391,447

Other liabilities

The increase of $8,398,000 (14.5%) and increase of $5,015,000 (7.6%) in *Other liabilities* from 2015 to 2016 and from 2016 to 2017, respectively, was due to Federal Programs mortgage loan originations exceeding repayments and prepayments and an increase in the net pension liability of $1,216,000. See *Note F – Retirement Plan*.

In 2017 a net other postemployment liability of $146,000 was established due to the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* See *Note H – Postemployment Healthcare Plan*.

Total Net Position improved by $14,734,000 (3.1%) from June 30, 2015 to June 30, 2016. From June 30, 2016 to June 30, 2017, *Total Net Position* improved by $10,917,000 (2.2%) as the enterprise fund net position improved to $499,454,000 at June 30, 2017.

Following is a comparison of condensed enterprise fund Statements of Revenues, Expenses, and Changes in Fund Net Position for the fiscal years ended June 30:

(Dollars in thousands)	2017	2016	2015
REVENUES			
Interest on loans	$ 31,106	$ 32,296	$ 34,014
Pass-through grant revenue	72,124	75,910	75,785
Fee revenue	6,905	6,444	6,386
Net investment earnings (non-operating)	(82)	5,116	2,998
Other	1,416	1,407	980
Total Revenues	111,469	121,173	120,163
EXPENSES			
Pass-through grant expense	72,124	75,910	75,785
Interest and debt expense (non-operating)	10,686	12,183	13,900
Loan fees expense	3,538	3,943	3,758
Program expenses, net	3,547	3,551	3,991
Administrative expenses, net	10,495	10,852	10,156
Total Expenses	100,390	106,439	107,590
CHANGE IN NET POSITION	11,079	14,734	12,573
NET POSITION AT BEGINNING OF YEAR	488,537	473,803	461,230
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE [1]	(162)	-	-
NET POSITION AT BEGINNING OF YEAR, AS RESTATED	488,375	473,803	461,230
NET POSITION AT END OF YEAR	$ 499,454	$ 488,537	$ 473,803

[1] *See Note A - Accounting methods*

Interest on loans

The decrease in *Interest on loans* of $1,190,000 (3.7%) and $1,718,000 (5.1%) from 2016 to 2017 and 2015 to 2016, respectively, was primarily due to a decrease in mortgage loan balances from the prior year as well as a decrease in the average mortgage loan rate.

Pass through grant revenue and Pass through grant expense

This line item represents federal funds received and disbursed to sub-recipients under Federal Programs.

The decrease of $3,786,000 (5.0%) from 2016 to 2017 was primarily due to a decrease in HOME disbursements of $5,274,000 and an increase of $1,488,000 in the Section 8 Housing Assistance Payments Program (HAP) disbursements.

The increase of $125,000 (.2%) from 2015 to 2016 was primarily due to an increase of $948,000 in the Section 8 Housing Assistance Payments Program (HAP) disbursements, net of a decrease in HOME disbursement of $823,000.

Fee revenue

The increase of $461,000 (7.2%) in *Fee revenue* from 2016 to 2017 was due to an increase of $125,000 in Section 8 fees earned, $108,000 in Low-Income Housing Tax Credit fees earned, and a net increase of $224,000 in mortgage loan processing fees.

The increase of $58,000 (0.9%) in *Fee revenue* from 2015 to 2016 was due to an increase of $102,000 in Low-Income Housing Tax Credit fees, an increase of $9,000 in Section 8 fees earned, net of a decrease of $53,000 in mortgage loan processing fees.

Net investment earnings

Net investment earnings increased $2,118,000 (70.6%) from 2015 to 2016 and decreased $5,198,000 (101.6%) from 2016 to 2017 in the comparison of revenues and expenses above. However, *Net investment earnings* include unrealized gains and losses in the fair market value of investments for each of the fiscal years presented as required by Generally Accepted Accounting Principles (GAAP). As shown in the schedule below, investment earnings, adjusted for the unrealized gains or losses, decreased 7.9% from 2015 to 2016 and decreased an additional 9.7% from 2016 to 2017 due to lower cash and investment balances and higher coupon securities called throughout the year and reinvested at lower rates.

(Dollars in thousands)		June 30,	
	2017	**2016**	2015
Net investment income per operating statement	**$ (82)**	**$ 5,116**	$ 2,998
Adjustments for unrealized loss (gain) on fair value of securities	**3,270**	**(1,587)**	834
Interest earned on investments	**$ 3,188**	**$ 3,529**	$ 3,832
% Decrease from prior year	**(9.7%)**	**(7.9%)**	

Other revenues

The increase of $9,000 (.6%) in *Other revenues* from 2016 to 2017 was primarily due to an increase due to the sale of Fund-owned vehicles of $28,000, an increase in gains on sale of mortgage loans of $11,000, net of a decrease of $29,000 in gains on sale of foreclosed properties.

The increase of $427,000 (43.6%) in *Other revenues* from 2015 to 2016 was primarily due to an increase in gains on sale of mortgage loans.

Interest and debt expense

The $1,497,000 (12.3%) decrease in *Interest and debt expense* from 2016 to 2017 was primarily due to $65,691,000 in bond redemptions, refundings and debt service exceeding bond issuances of $39,755,000 during 2017.

The $1,717,000 (12.4%) decrease in *Interest and debt expense* from 2015 to 2016 was primarily due to $97,338,000 in bond redemptions, refundings and debt service exceeding bond issuances of $70,060,000 during 2016.

Loan fees expense

The $405,000 (10.3%) decrease in *Loan fees expense* was primarily due to a decrease in loan originations which resulted in a decrease in loan origination fees of $230,000, a decrease in service release fees of $128,000 and a decrease in service fees on loans of $45,000.

The $185,000 (4.9%) increase in *Loan fees expense* was primarily due to an increase in loan origination fees due to an increase in loan originations.

Program expenses, net

The $4,000 (.1%) decrease in *Program expenses, net* from 2016 to 2017 was primarily due to a decrease of $230,000 in building expenses, a $220,000 decrease in cost of issuance expenses, a $47,000 decrease in bad debt expenses, net of a $480,000 increase in losses on sale of foreclosed properties and a $12,000 increase in program disbursements.

The $440,000 (11.0%) decrease in *Program expenses, net* from 2015 to 2016 was primarily due to a decrease of $360,000 in cost of issuance expenses, a decrease of $292,000 in servicing expense net of a $210,000 increase in Special Needs disbursements.

Administrative expenses, net

The $357,000 (3.3%) decrease in *Administrative expenses, net* from 2016 to 2017 was primarily due to a net decrease of $118,000 in computer-related expenses, an increase of $93,000 in legal expenses and an increase of $296,000 in various administrative reimbursements.

The $696,000 (6.9%) increase in *Administrative expenses, net* from 2015 to 2016 was primarily due to a $727,000 decrease in administrative reimbursements from the HOME program.

OVERVIEW OF THE ENTERPRISE FUND FINANCIAL STATEMENTS

Mortgage Lending

The Fund's Bond Programs are the core-housing programs and the primary source of income for the Fund. Various economic and regulatory factors such as prevailing economic conditions, mortgage interest rates, investment rates, the demand for housing, the cost of housing and of operating housing programs, the volume of mortgage lending activity in the State and other factors affecting the supply of housing in the State can create significant challenges for the Fund in both the Bond Programs and its overall operations.

Since the onset of the housing crisis in 2009, the fund's single family mortgage loan originations have declined due to several related factors. During this time, conventional mortgage rates have been comparable to the Funds tax-exempt bond mortgage rates reducing the Fund's traditional competitive edge of mortgage rates. In addition, lending guidelines have been more restrictive, preventing many borrowers from qualifying for home mortgage loans. Record low interest rates have also contributed to a large number of borrowers refinancing their Bond Program loans. Mortgage loan balances and continued loan originations are key elements to future earnings potential.

The Bond Programs mortgage loan balances decreased from fiscal year 2015 through fiscal year 2017 as follows:

(Dollars in thousands)		June 30,	
	2017	**2016**	2015
Beginning Balance	**$ 597,007**	**$ 609,095**	$ 624,411
Repayments/Prepayments	**(65,361)**	**(64,561)**	(61,769)
Foreclosures	**(4,857)**	**(4,834)**	(6,554)
Originations	**48,536**	**66,928**	53,007
Loans sold to Secondary Market	**-**	**(9,621)**	-
Ending Balance	**$ 575,325**	**$ 597,007**	$ 609,095
% Decrease from prior year	**(3.6%)**	**(2.0%)**	

Interest rates on new single family bond loans originated in fiscal year 2017 have averaged approximately 3.97%. Due to lower interest rates on new single family loan originations and the prepayment of higher interest single family and multifamily loans, the average interest rate on loans outstanding has declined. The average loan interest rate listed below shows the average for fiscal years 2015 through 2017.

Average Loan Interest Rate	
June 30, 2015	4.91%
June 30, 2016	4.66%
June 30, 2017	4.62%

The Fund's Bond Programs consist of 30-year fixed rate loans and no sub-prime loans. The median income of Fund borrowers is $33,529 as of June 30, 2017. This income level tends to be impacted quicker than an average borrower during economic declines. Despite the economic downturn in the State related to the decline in coal and gas sector jobs, the Fund has not seen a significant increase in foreclosures and delinquencies. For the years 2015 through 2017 the Fund's foreclosure and delinquency rates have remained stable with the exception of the Three+ category increase in 2016. This is attributable to an increase in the number of loans in loss mitigation while the Fund assists those borrowers through financial difficulties. The Fund will continue to monitor delinquencies and increase communication with borrowers through monthly statements to control delinquencies where possible and/or modify loans as borrowers deal with unemployment.

Delinquency Rates

	WV Housing Development Fund As of June 30,			WV*	USA*
	2017	2016	2015	As of March 31, 2017	
Months Past Due					
One	3.94%	4.30%	4.29%	3.02%	2.26%
Two	1.11%	1.35%	1.29%	0.96%	0.70%
Three	0.46%	0.69%	0.60%	1.56%	1.37%
Three +	1.66%	2.12%	1.37%	2.66%	2.76%
In foreclosure	0.26%	0.32%	0.18%	1.10%	1.39%

*Most current data available.

In response to the increased demand for affordable rental housing, the Fund is increasing its financing of both construction and permanent financing of multifamily rental housing. Resources for this initiative are provided from Other Loan Programs, HOME and the new National Housing Trust Fund. Permanent loans financed from Other Loan Programs often carries United States Department of Agriculture (USDA) 538 loan guarantees. The Fund expects to continue its focus on financing rental housing into fiscal 2018 and future years.

Investments

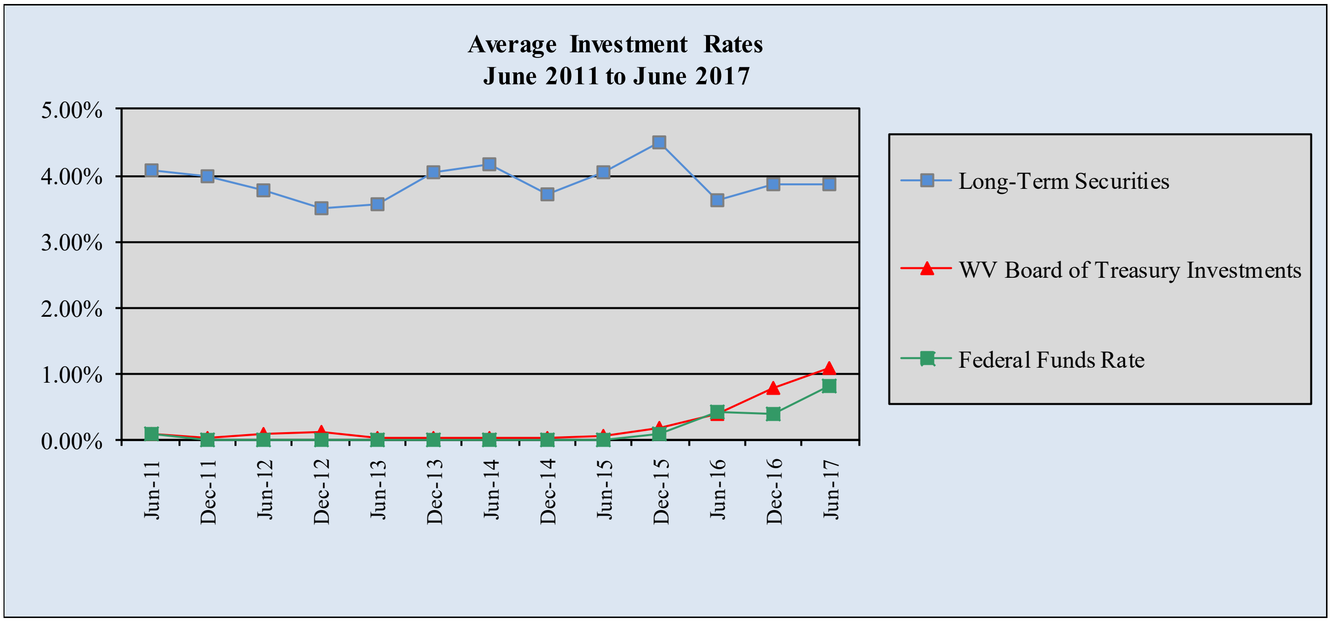
The Fund invests cash not required for immediate disbursement as permitted by the Act, the bond resolutions, and the Board approved Investment Policy. Funds related to the Bond Programs capital reserves and the Bond Insurance Account are primarily invested in long-term United States agency securities and FDIC insured certificates of deposit or collateralized certificates of deposit, which are expected to be held to maturity. Certain funds in the Bond Insurance Account and general operating funds are invested in mortgage loans held solely for investment. The interest earnings on these investment types are less affected by the fluctuation in short-term interest rates. However, as these long-term securities mature or are called, the Fund's long-term average rates are decreasing due to lower yield opportunities for the reinvestment of these funds.

Loan proceeds and revenues of the Bond Programs, Other Loan Program, and operating funds are primarily on deposit with a bank, invested in FDIC insured certificates of deposit or collateralized certificates of deposit. All bank deposits are either FDIC insured or collateralized by permitted investments. The remaining funds are on deposit with the West Virginia Board of Treasury Investments (WVBOTI). Such funds are extremely sensitive to short-term interest rate fluctuations.

As shown in the following chart, the average investment rates for short-term investments and the WVBOTI has been consistent with the Federal Funds rate and remained at a historical low of 0.00% to 0.25% from 2009 through 2015. During fiscal year 2016, the Federal Reserve increased the federal funds rate ranging from 0.25% to 0.50% and increased it an additional three times in fiscal year 2017 to the current rate of 1.00% to 1.25%. Due to market conditions, the Fund invests in Demand Deposit Accounts, FDIC insured certificates of deposit and in collateralized certificates of deposit to maximize investment yields and preserve principal.

The low interest rate environment has directly impacted the Fund's investment earnings as they decreased 7.9% from 2015 to 2016, net of unrealized gains or losses, and an additional 9.7% from 2016 to 2017, net of unrealized gains or losses. The decrease in 2017 was primarily due to lower cash and investment balances and the call of higher coupon investments throughout the year that were reinvested at lower rates.

Below is a summary of the average investment rates from June 2011 to June 2017:



Debt Management

The Fund issues qualified mortgage revenue bonds to fund its single family Bond Programs. When bonds are issued, the initial proceeds are invested in short-term investments until the funds are used for the purchase of mortgage loans. Because short-term investment rates are typically lower than the long-term bond rates, this creates negative arbitrage. To reduce this negative arbitrage, the Fund delays the issuance of new bonds until absolutely necessary.

The Fund sometimes uses general operating funds as a warehouse line to purchase new loans in anticipation of bond sales.

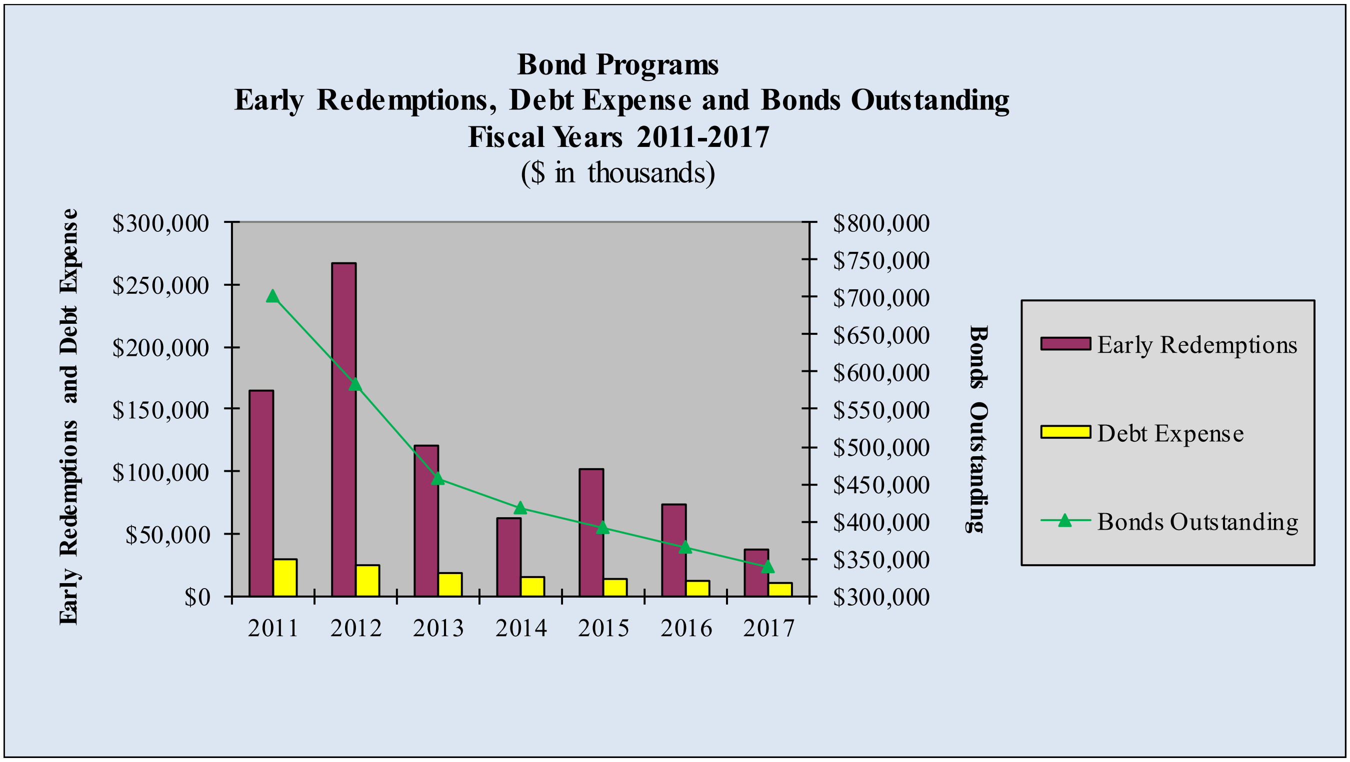
When bonds are issued from the bond volume allocation, known as "new money" bonds, certain repayments and prepayments of mortgage loans made from these proceeds may be "recycled" into additional mortgage loans for ten years. The Fund uses recycling to supplement its bond issues by using prepayments for additional mortgage loans instead of issuing debt. If the market interest rates on mortgages are lower than the corresponding bond rates, the Fund may redeem bonds in lieu of recycling. However, if mortgage rates are higher than the corresponding bond rates the Fund may redirect prepayments into additional mortgage loans in lieu of redeeming bonds. Moving forward into fiscal year 2018 the Fund expects to continue to recycle mortgage loan repayments from its bond issues when it is economically prudent to do so.

The Fund created the Movin' Up program as a long-term strategy intended to be a self-funding lending program as an alternative to dependency on the bond market and a method of assisting moderate income borrowers. The program is designed to attract a new market to our single family loan program and provide a long-term increase in our mortgage loan balances. Unlike other single family bond programs the Fund offers, the Movin' Up Program does not have a first time homebuyer restriction and has significantly higher income limits than other single family programs offered. Its target market is for moderate income buyers who may have outgrown their current homes and want to move up to a larger home or move on to a home of greater value and provides the borrower with down payment and closing cost assistance.

During fiscal years 2015, 2016 and 2017, the Fund redeemed or refunded \$101,225,000, \$72,880,000 and \$38,495,000 in bonds, respectively. In addition, 2015, 2016 and 2017 redemptions included the refunding of bonds in the amount of \$69,320,000, \$40,060,000 and \$14,505,000, respectively.

Debt expense was \$13,900,000, \$12,183,000 and \$10,686,000 in fiscal years 2015, 2016 and 2017, respectively. Debt expense decreased in 2016 and 2017 as compared to 2015 due to lower bond balances as a result of redemptions exceeding new debt issuances and interest savings resulting from refundings of high rate bonds.

The following chart illustrates early bond redemptions, debt expense and bonds outstanding in the Bond Programs.



By actively redeeming bonds the Fund has offset the impact of reduced mortgage loan balances and rates.

Other

The Fund services all of its outstanding mortgage loans and services loans on behalf of Fannie Mae, Freddie Mac, the West Virginia Affordable Housing Trust, the West Virginia Jobs Investment Trust and various non-profit organizations and banks. The Fund is the largest loan servicer in the State with serviced loans of $1.2 billion. Servicing fee income in the amount of $3,079,000 represents 7.81% of the Fund's operating revenues, net of pass through grant revenue, for the fiscal year ended June 30, 2017.

OVERVIEW OF THE FIDUCIARY FUND FINANCIAL STATEMENTS

The Fund has one fiduciary fund, the Welfare Benefit Plan, which is an irrevocable trust for postemployment healthcare benefits for employees. These funds are not available to support the Fund's enterprise activities. The accounting used for fiduciary funds is much like that used for enterprise funds.

Net position restricted for other postemployment benefits improved by $531,000 (11.3%) from June 30, 2015 to June 30, 2016. From June 30, 2016 to June 30, 2017, *Net position restricted for other postemployment benefits* improved by $193,000 (3.7%) to $5,433,000 at June 30, 2017.

The fiduciary fund financial statements can be found on pages 17 and 18 of this report and the Welfare Benefit Plan is discussed in greater detail in *Note H – Postemployment Healthcare Plan.*

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

The above financial highlights are designed to provide a general overview of the Fund's operations and insight into the following financial statements. Additional information may be requested by contacting the Executive Director, West Virginia Housing Development Fund, at 5710 MacCorkle Ave. SE, Charleston, WV 25304, or may be found on our website at www.wvhdf.com.

WEST VIRGINIA HOUSING DEVELOPMENT FUND
PROPRIETARY FUND TYPE - ENTERPRISE FUND
STATEMENTS OF NET POSITION
(Dollars in Thousands)

	June 30, 2017	June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents-- *(Notes A and C)*	$ 21,038	$ 15,291
Accrued interest on loans	266	230
Accounts receivable and other assets, net of allowance for losses-- *(Note A)*	1,050	961
Mortgage loans held for sale-- *(Note A)*	116	328
Restricted cash and cash equivalents-- *(Notes A and C)*	39,822	42,775
Restricted accrued interest on loans	2,403	2,419
Restricted accrued interest on investments	577	654
Total current assets	65,272	62,658
Noncurrent assets:		
Mortgage loans, net of allowance for losses-- *(Note A)*	56,505	50,743
Capital assets, net of depreciation-- *(Note A)*	8,663	9,032
Restricted cash and cash equivalents-- *(Notes A and C)*	48,708	37,107
Restricted investments-- *(Notes A and C)*	81,632	93,506
Restricted mortgage loans, net of allowance for losses-- *(Note A)*	657,174	677,196
Restricted other assets, net of allowance for losses-- *(Note A)*	6,314	7,179
Total noncurrent assets	858,996	874,763
Total assets	924,268	937,421
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pension and OPEB	2,244	1,974
LIABILITIES		
Current liabilities:		
Accounts payable and other liabilities-- *(Note A)*	16,044	17,469
Accrued interest payable	1,795	1,903
Bonds payable-- *(Note D)*	35,715	33,975
Total current liabilities	53,554	53,347
Noncurrent liabilities:		
Other liabilities-- *(Note A)*	71,132	66,117
Bonds & notes payable-- *(Note D)*	302,056	329,905
Total noncurrent liabilities	373,188	396,022
Total liabilities	426,742	449,369
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension	316	1,489
NET POSITION		
Restricted for debt service	346,325	341,213
Restricted by state statute for bond insurance and land development	67,020	71,329
Investment in capital assets	8,663	9,032
Unrestricted	77,446	66,963
Total net position	$ 499,454	$ 488,537

The accompanying notes to financial statements are an integral part of these statements.

WEST VIRGINIA HOUSING DEVELOPMENT FUND
PROPRIETARY FUND TYPE - ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
(Dollars in Thousands)

	Year Ended June 30, 2017	Year Ended June 30, 2016
OPERATING REVENUES		
Interest on loans	$ 31,106	$ 32,296
Pass-through grant revenue-- *(Note A)*	72,124	75,910
Fee revenue-- *(Note A)*	6,905	6,444
Other-- *(Note A)*	1,416	1,407
	111,551	116,057
OPERATING EXPENSES		
Pass-through grant expense-- *(Note A)*	72,124	75,910
Loan fees expense-- *(Note A)*	3,538	3,943
Program expenses, net-- *(Note A)*	3,547	3,551
Administrative expenses, net-- *(Note A)*	10,495	10,852
	89,704	94,256
OPERATING INCOME	21,847	21,801
NON-OPERATING - FINANCING AND INVESTING (EXPENSES) REVENUES		
Investment earnings:		
Interest	3,188	3,526
Net (decrease) increase in the fair value of investments	(3,270)	1,590
Net investment earnings	(82)	5,116
Interest and debt expense	(10,686)	(12,183)
	(10,768)	(7,067)
CHANGE IN NET POSITION	11,079	14,734
NET POSITION AT BEGINNING OF YEAR	488,537	473,803
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE [1]	(162)	-
NET POSITION AT BEGINNING OF YEAR, AS RESTATED	488,375	473,803
NET POSITION AT END OF YEAR	$ 499,454	$ 488,537

[1] See Note A - *Accounting methods*

The accompanying notes to financial statements are an integral part of these statements.

WEST VIRGINIA HOUSING DEVELOPMENT FUND
PROPRIETARY FUND TYPE - ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	Year Ended June 30, 2017	Year Ended June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from lending activities	$ 109,356	$ 110,428
Receipts from other operating activities	8,283	7,773
Receipts from escrows and advance activities [1]	86,144	86,173
Disbursements from escrows and advance activities [1]	(87,678)	(85,484)
Receipts for federal lending activities	8,149	12,500
Receipts for federal activities	63,034	61,545
Disbursements for federal activities	(63,016)	(61,527)
Purchase of mortgage loans	(68,691)	(89,575)
Purchase of mortgage loans held for sale	(42,078)	(36,792)
Sales of mortgage loans	42,290	49,578
Payments to employees for salaries and benefits	(7,666)	(8,163)
Payments to vendors	(8,322)	(10,686)
Net cash provided by operating activities	39,805	35,770
CASH FLOWS USED IN NONCAPITAL FINANCING ACTIVITIES		
Net proceeds from bonds and notes	39,755	70,060
Retirement of bonds and notes	(65,691)	(97,334)
Interest paid	(10,967)	(12,690)
Net cash used in noncapital financing activities	(36,903)	(39,964)
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment and furnishings	-	(148)
Net cash used in capital and related financing activities	-	(148)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	44,318	38,750
Purchase of investments	(35,995)	(47,930)
Net investment earnings	3,170	3,636
Net cash provided by (used in) investing activities	11,493	(5,544)
Net increase (decrease) in cash and cash equivalents	14,395	(9,886)
Cash and cash equivalents at beginning of year	95,173	105,059
Cash and cash equivalents at end of year	$ 109,568	$ 95,173
Cash and cash equivalents consist of:		
Cash and cash equivalents	$ 21,038	$ 15,291
Restricted cash and cash equivalents - current	39,822	42,775
Restricted cash and cash equivalents - noncurrent	48,708	37,107
	$ 109,568	$ 95,173

[1] See Note A, *Restricted cash and cash equivalents*

The accompanying notes to financial statements are an integral part of these statements.

WEST VIRGINIA HOUSING DEVELOPMENT FUND
PROPRIETARY FUND TYPE - ENTERPRISE FUND
STATEMENTS OF CASH FLOWS (CONTINUED)
(Dollars in Thousands)

	Year Ended June 30, 2017	Year Ended June 30, 2016
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 21,847	$ 21,801
Adjustments to reconcile operating income to net cash provided by operating activities:		
Pension expense	569	303
OPEB expense	215	-
Change in assets and liabilities:		
Accrued interest on loans	(36)	(13)
Mortgage loans held for sale	212	2,697
Other assets	(15)	398
Allowance for losses on other assets	295	178
Restricted accrued interest on loans	16	129
Restricted other assets	907	2,423
Allowance for losses on restricted other assets	(42)	(444)
Mortgage loans	(5,822)	(4,063)
Allowance for losses on mortgage loans	60	616
Restricted mortgage loans	19,049	4,212
Allowance for losses on restricted mortgage loans	973	1,053
Accounts payable	(1,049)	(421)
Other liabilities, Federal Programs	3,653	7,615
Deferred outflows of resources - pension contributions	(622)	(714)
Other liabilities, OPEB	(405)	-
Net cash provided by operating activities	$ 39,805	$ 35,770

	2017	2016
Noncash investing and financing activities:		
(Decrease) Increase in fair value of investments	$ (3,647)	$ 2,013
Net amortization of premiums/discounts on investments	97	88

WEST VIRGINIA HOUSING DEVELOPMENT FUND
FIDUCIARY FUND TYPE - WELFARE BENEFIT PLAN
STATEMENTS OF FIDUCIARY NET POSITION
(Dollars in Thousands)

	June 30, 2017	June 30, 2016
ASSETS		
Restricted cash and cash equivalents	$ 984	$ 619
Restricted accrued interest on investments	7	9
Restricted other assets	-	31
Restricted investments:		
Federal agency securities	700	1,366
U.S. Treasury securities	1,497	1,212
Certificates of deposit	2,245	1,753
Corporate deposits	-	250
Total restricted investments	4,442	4,581
Total restricted assets	5,433	5,240
NET POSITION RESTRICTED FOR OTHER POSTEMPLOYMENT BENEFITS	$ 5,433	$ 5,240

The accompanying notes to financial statements are an integral part of these statements.

WEST VIRGINIA HOUSING DEVELOPMENT FUND
FIDUCIARY FUND TYPE - WELFARE BENEFIT PLAN
STATEMENTS OF CHANGES IN FUDICIARY NET POSITION
(Dollars in Thousands)

	Year Ended June 30, 2017	Year Ended June 30, 2016
ADDITIONS		
Contributions - Employer	$ 405	$ 723
Investment income:		
Interest	63	47
Net (decrease) increase in fair value of investments	(41)	14
Net investment income	22	61
Total additions	427	784
DEDUCTIONS		
Benefits	218	227
Administrative expenses	16	26
Total deductions	234	253
NET INCREASE IN NET POSITION	193	531
NET POSITION RESTRICTED FOR OTHER POSTEMPLOYMENT BENEFITS		
BEGINNING OF YEAR	5,240	4,709
END OF YEAR	$ 5,433	$ 5,240

The accompanying notes to financial statements are an integral part of these statements.

NOTE A – AGENCY DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

The West Virginia Housing Development Fund (the Fund) is a governmental instrumentality of the State of West Virginia (the State) and a public body corporate, created under the provisions of Article 18, Chapter 31 of the Code of West Virginia, 1931, as amended, and known as the West Virginia Housing Development Fund Act (the Act). Under the Act, the Fund's corporate purposes primarily relate to providing various housing programs. The Fund can also finance non-residential projects as defined in the Act.

The Fund is governed by a Board of Directors consisting of the Governor, Attorney General, Commissioner of Agriculture, and Treasurer of the State, all of whom serve ex-officio as public directors, and seven members, chosen by the Governor with the advice and consent of the State Senate, as private directors from the general public residing in the State. The Act, as amended in January 2005, designates the Governor or his or her designee as the Chair of the Board of Directors. Furthermore, this amendment provides that the Governor shall appoint the Executive Director, with the advice and consent of the State Senate, and that the Executive Director will serve at the Governor's will and pleasure.

The Fund receives no appropriations from the State; however it is included as a discretely presented component unit of the primary government in the State's Comprehensive Annual Financial Report. The reporting entity for the Fund includes its enterprise fund and Welfare Benefit Plan Fund. In defining the Fund for financial reporting purposes, management considered all potential component units. Based on the criteria of accounting principles generally accepted in the United States, the Fund has one component unit, the Welfare Benefit Plan, an irrevocable trust for postemployment healthcare insurance benefits provided to the Fund's employees. The Fund's financial statement presentation includes the Welfare Benefit Plan as a fiduciary fund.

The various programs of the Fund consist of the General Account, the Bond Programs, Other Loan Programs, Land Development Program, Bond Insurance Account, and Federal Programs.

The General Account includes the results of the Fund's loan servicing operations, administrative expenses of the Fund's operations, operations of the Fund's building and fee income related to the administration of the Section 8 Housing Assistance Payments Programs (HAPs Program) and the Low-Income Housing Tax Credit Program.

The Bond Programs include the activities of the single family and multifamily bond programs under the Housing Finance Bond Program and the General New Issue Bond Program resolutions, the purpose of which is to provide affordable housing throughout the State. Assets and revenues of the Bond Programs are restricted subject to the provisions of the bond resolutions and are available for other purposes only to the extent they are not required to meet specified reserve and funding provisions of the resolutions.

Other Loan Programs include the Downpayment and Closing Cost Assistance Program, Secondary Market Program, Leveraged Loan Program, Mini-Mod Renovation Program, Flood Program, Demolition Program, Home Emergency Loan Program, Low-Income Assisted Mortgage Program, On-Site Septic Systems Loan Program, New Construction Financing Program and the Special Assistance Lending Program, all of which have been financed from the general reserves of the Fund.

The Land Development Program was established by the Act in 1973 with a $2,000,000 appropriation from the State Legislature from which the Fund can make below-market interest rate loans to developers to acquire and improve land for residential housing and non-residential construction. The Land Development Program includes the West Virginia Property Rescue Initiative Program and is restricted by State statute.

The Bond Insurance Account was created by the Act as a special trust fund within the State Treasury designated as the "Mortgage Finance Bond Insurance Fund", and was established to provide for the payment of principal and interest in the event of default by the Fund on "Mortgage Finance Bonds," as defined in the Act. The Bond Insurance Account is restricted by State statute and is under the supervision of the West Virginia Municipal Bond Commission (the "Bond Commission"). The Bond Insurance Account is included in the Fund's financial statements but is kept separate and apart from all other accounts of the Fund, the Bond Commission, and the State. Both the Housing Finance Bond Program and the General New Issue Bond Program are considered Mortgage Finance Bonds.

Federal Programs include the United States Department of Housing and Urban Development's (HUD) HOME Investment Program (HOME), Tax Credit Assistance Program (TCAP), HAPs Program and the U.S. Treasury's Tax Credit Exchange Program (TCEP) for which the Fund acts as program administrator. These programs are funded solely through federal monies and are restricted by Federal regulations.

Accounting methods: The accounting policies of the Fund conform to generally accepted accounting principles for state housing finance agency enterprise funds. The various programs were established in accordance with the Act, the bond resolutions, or at management's discretion. The financial statements of the enterprise fund and the fiduciary fund are prepared using the flow of economic resources measurement focus and the accrual basis of accounting, which requires recognition of revenue when earned and expenses when incurred.

Effective July 1, 2016, the Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, enterprise fund financial statements include the July 1, 2016 cumulative decrease of $162,000 to the 2017 beginning net position, which represents the net other postemployment liability as of that date.

Reclassifications: Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. Such reclassifications had no effect on the enterprise fund's *Total Net Position.*

Estimates – Certain estimates and assumptions are required by management in the preparation of the financial statements in accordance with generally accepted accounting principles (GAAP). The significant estimates and assumptions are those required in the determination of the allowance for losses for the following items: accounts receivable and other assets, mortgage loans, restricted mortgage loans, and restricted other assets. Actual results in the near-term could differ from those estimates.

Cash and cash equivalents: The Fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. This includes cash, certificates of deposit, short-term agency notes, and certain deposits with the West Virginia Board of Treasury Investments (WVBOTI).

Accounts receivable and other assets, net of allowance for losses include accounts receivables, land for housing purposes and foreclosed properties, net of an allowance for estimated probable declines in net realizable value.

(Dollars in thousands)	June 30, 2017			June 30, 2016		
	Balance	Allowance	Net	Balance	Allowance	Net
Accounts receivable and other Assets:						
Accounts receivable	$ 977	$ (9)	$ 968	$ 901	$ (22)	$ 879
Land	117	(35)	82	117	(35)	82
Foreclosed property	603	(603)	-	295	(295)	-
Total	$ 1,697	$ (647)	$ 1,050	$ 1,313	$ (352)	$ 961

Mortgage loans held for sale: In its Secondary Market Program, the Fund purchases and sells fixed-rate mortgage loans, primarily to FNMA, on a servicing retained basis. The sale price is determined at the date of commitment and the commitment period generally ranges from 30 to 90 days. *Mortgage loans held for sale* are carried at the lower of aggregate cost or fair value.

Enterprise fund *Restricted cash and cash equivalents* represents monies the Fund holds on behalf of others, restricted by the Act or by the bond resolutions. Included in this line item are tax and insurance escrows held on behalf of the Fund's various mortgagors and payments collected on mortgages for which the Fund acts as servicer only. The Fund is obligated to expend these monies on escrowed items or remit them to the appropriate investors in the case of mortgage loans serviced for the benefit of others. Also included in *Restricted cash and cash equivalents* are federal housing program funds for which the Fund acts as grantee or agent. The total funds held on behalf of others were $13,870,000 at June 30, 2017 and $14,437,000 at June 30, 2016. *Restricted cash and cash equivalents* to be used for the acquisition of noncurrent assets, such as mortgage loans or investments, are classified as *Noncurrent assets*.

Fiduciary fund _Restricted cash and cash equivalents_ represents monies held in an irrevocable trust for postemployment healthcare insurance benefits for Fund employees. These funds are not available to support the various programs of the enterprise fund.

Mortgage loans, net of allowances for losses: These loans consist primarily of unrestricted mortgage loans made under the General Account and Other Loan Programs. The Fund provides for possible losses on loans based on management's review of potential problem loans. The allowance for loan losses is shown below.

(Dollars in thousands)	June 30, 2017			June 30, 2016		
	Balance	**Allowance**	**Net**	**Balance**	**Allowance**	**Net**
Unrestricted Mortgage Loans:						
General Account	$ 3,475	$ (2,012)	$ 1,463	$ 3,299	$ (2,100)	$ 1,199
Other Loan Programs	68,608	(13,566)	55,042	62,962	(13,418)	49,544
Total	$ 72,083	$ (15,578)	$ 56,505	$ 66,261	$ (15,518)	$ 50,743

Capital assets, net of depreciation include land, buildings, equipment, furnishings and computer software that are stated at their original cost less accumulated depreciation. Capital asset expenditures of $20,000 or more with a useful life greater than 1 year are capitalized at cost and reported net of accumulated depreciation. Depreciation is computed using the straight-line method over the useful lives of the assets, which is 40 years for the building and from 3 to 10 years for furniture, equipment and software.

(Dollars in thousands)	**June 30, 2016**	**Additions**	**Deletions**	**June 30, 2017**
Capital assets, not being depreciated:				
Land	$ 1,810	$ -	$ -	$ 1,810
Total capital assets, not being depreciated	1,810	-	-	1,810
Capital assets, being depreciated:				
Buildings	7,709	-	-	7,709
Equipment and furnishings	1,260	-	-	1,260
Computer software	531	-	-	531
Total capital assets, being depreciated	9,500	-	-	9,500
Less accumulated depreciation for:				
Buildings	(954)	(193)	-	(1,147)
Equipment and furnishings	(1,114)	(71)	-	(1,185)
Computer software	(210)	(105)	-	(315)
Total accumulated depreciation	(2,278)	(369)	-	(2,647)
Total capital assets being depreciated, net	7,222	(369)	-	6,853
Total capital assets, net	$ 9,032	$ (369)	$ -	$ 8,663

(Dollars in thousands)	June 30, 2015	Additions	Deletions	June 30, 2016
Capital assets, not being depreciated:				
Land	$ 1,810	$ -	$ -	$ 1,810
Total capital assets, not being depreciated	1,810	-	-	1,810
Capital assets, being depreciated:				
Buildings	7,709	-	-	7,709
Equipment and furnishings	1,196	64	-	1,260
Computer software	447	84	-	531
Total capital assets, being depreciated	9,352	148	-	9,500
Less accumulated depreciation for:				
Buildings	(761)	(193)	-	(954)
Equipment and furnishings	(857)	(257)	-	(1,114)
Computer software	(166)	(44)	-	(210)
Total accumulated depreciation	(1,784)	(494)	-	(2,278)
Total capital assets being depreciated, net	7,568	(346)	-	7,222
Total capital assets, net	$ 9,378	$ (346)	$ -	$ 9,032

Restricted investments: The Fund established guidelines for the investment of its funds to meet the requirements of the bond resolutions and the Act. Currently, investments consist primarily of United States government and agency obligations and certificates of deposit with maturities greater than 90 days.

Investment securities are recorded at fair value, or at amortized cost as permissible, and a portion of the unrealized gains or losses is reported in the Statements of Revenues, Expenses, and Changes in Fund Net Position as part of *Net investment earnings* as more fully explained in *Note C – Cash and Investments*.

Restricted mortgage loans, net of allowance for losses includes loans originated under the General Account, the Bond Programs, Land Development Program, Other Loan Programs and Federal Programs as well as loans held in the Bond Insurance Account. These mortgages are restricted by the bond resolutions, the Act, State statute or other restricted purposes.

The allowance for loan losses in these programs is shown below.

(Dollars in thousands)	June 30, 2017			June 30, 2016		
	Balance	Allowance	Net	Balance	Allowance	Net
Restricted Mortgage Loans:						
General Account	$ 464	$ (462)	$ 2	$ 514	$ (511)	$ 3
Other Loan Programs	698	(265)	433	709	(267)	442
Land Development	3,172	(1,608)	1,564	3,161	(1,655)	1,506
Bond Insurance Account	15,143	(649)	14,494	16,136	(696)	15,440
Bond Programs	585,445	(10,120)	575,325	607,072	(10,065)	597,007
Federal Programs	148,158	(82,802)	65,356	144,537	(81,739)	62,798
Total	$ 753,080	$ (95,906)	$ 657,174	$ 772,129	$ (94,933)	$ 677,196

Federal Programs include HOME, which is designed to assist very low-income borrowers and to provide capacity building funds for nonprofit housing organizations. The funds provided to the nonprofits will only be repaid if the nonprofit fails to provide the services required as a condition of receiving HOME funds. Federal Programs also include TCAP and TCEP, which were designed to assist in the development of Low-Income Housing Tax Credit Program properties. These funds will only be repaid if the recipient fails to comply with certain covenants of their agreement. Therefore, HOME, TCAP and TCEP projects are recorded as restricted mortgage loans and the TCAP, TCEP and nonprofit HOME projects have a corresponding 100% loss allowance in the Statements of Net Position.

Most loans in the Bond Programs are protected against loss by various federal and private insurance programs. Repayment of certain multifamily rental project loans is dependent, in part, upon rental and interest subsidy programs of HUD.

Enterprise fund *Restricted other assets* include certain foreclosed properties, properties developed for flood activities, other land for restricted housing purposes, and miscellaneous receivables, net of an allowance for estimated probable declines in the net realizable value. These assets are restricted subject to the provisions of the bond resolutions, the Act, or federal regulations.

(Dollars in thousands)	June 30, 2017			June 30, 2016		
	Balance	**Allowance**	**Net**	**Balance**	**Allowance**	**Net**
Restricted other assets:						
Accounts receivable	$ 34	$ -	$ 34	$ 8	$ -	$ 8
Land	2,936	(2,049)	887	2,936	(2,049)	887
Foreclosed property	7,411	(2,018)	5,393	8,344	(2,060)	6,284
Total	$ 10,381	$ (4,067)	$ 6,314	$ 11,288	$ (4,109)	$ 7,179

Fiduciary fund *Restricted other assets* include accounts receivables for amounts due from the enterprise fund and not yet paid.

Deferred outflows of resources related to pension and OPEB represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time as explained in *Note F – Retirement Plan* and *Note H – Postemployment Healthcare Plan.*

Accounts payable and other liabilities includes amounts held on behalf of others as explained in *Note A - Restricted cash and cash equivalents*, amounts due to vendors, and rebateable investment earnings.

Other liabilities include federal housing program funds for which the Fund acts as grantee or agent to originate mortgages under the HOME program, the Fund's net pension liability as explained in *Note F – Retirement Plan* and the Fund's net OPEB liability as explained in *Note H – Postemployment Healthcare Plan.*

Deferred inflows of resources related to pension represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time as explained in *Note F – Retirement Plan*.

Enterprise fund *Restricted net position:* Net position of the Bond Programs is restricted to meet specified reserve and funding provisions in accordance with the bond resolutions. Net positions of the Land Development Program and Bond Insurance Account are restricted in accordance with the Act. Federal Programs are restricted due to requirements of HUD or other grantor agencies. When both restricted and unrestricted resources are available for use, it is generally the Fund's policy to use restricted resources first, and then unrestricted resources as they are needed.

Fiduciary fund *Restricted net position:* Net position of the fiduciary fund is restricted to postemployment healthcare insurance benefits for the Fund's employees.

Operating revenues and expenses: The Fund classifies operating revenues and expenses in the enterprise fund based on the services provided by the Fund and its ongoing operations. This includes such activities as mortgage lending, administration of federal financial awards programs, property management and development, and other related program activities. *Net investment earnings* and interest on debt are reported as *non-operating revenues and expenses*.

Pass-through grant revenue and pass-through grant expense: The Fund receives grants and other financial assistance from HOME and the HAPs Programs to transfer or spend on behalf of various secondary recipients. These amounts are considered pass-through grants and are reported in the financial statements as revenue and expense when funds are disbursed to the sub recipient.

Fee revenue consists primarily of loan servicing fees on mortgage loans serviced by the Fund, administration fees earned from the HAPs Program, financing fees, tax credit fees, secondary market fees, prepayment penalties on multifamily loans and deferred document penalty fees.

The Fund services all loans in its portfolio as well as loans on behalf of others totaling approximately $1,185,000,000 and $1,209,000,000 at June 30, 2017 and 2016, respectively. Of this total, the portfolio serviced by the Fund on behalf of others approximated $358,785,000 and $370,238,000 at June 30, 2017 and 2016, respectively.

Other revenues consist primarily of rental income, gains on sale of mortgages in the Secondary Market Program, gains on sales of foreclosed properties acquired through the Fund's mortgage lending activities, and other miscellaneous revenue items.

Loan fees expense includes fees paid to lenders and vendors related to the origination of mortgage loans. In addition, loan fees expense includes the cost of acquiring the servicing rights to mortgage loans owned by the Fund and loans owned by others, primarily Fannie Mae.

Program expenses primarily consist of disbursements made under the Fund's various programs, provisions for mortgage loan losses, losses on sales of foreclosed properties acquired through the Fund's mortgage lending activities and costs of bond issuance. *Program expenses* also include daily operating expenses of the office building owned by the Fund.

Administrative expenses, net include salary, benefits, and other operating expenses related to the daily operations of the Fund. When an expense is incurred, the expense is charged to the program or account for which it is directly applicable, whether restricted or unrestricted. Indirect expenses are allocated to programs and accounts based on a percentage of the program's or account's direct salary cost.

Contributions – Employer includes contributions from the enterprise fund to the fiduciary fund for healthcare insurance benefits for retired employees and their eligible dependents.

Net investment income represents interest earnings on postemployment healthcare cash and investments and the increase or decrease in the fair value of investments for the fiduciary fund.

Benefits include benefit payments from the fiduciary fund for postemployment healthcare costs for retired employees and their eligible dependents.

Administrative Expenses in the fiduciary fund include trustee fees associated with investment management of the Welfare Benefit Plan and fees for actuarial valuations.

NOTE B – ASSETS FOR RESERVED AND OTHER PURPOSES

Assets and revenues of the Bond Programs are subject to the provisions of the bond resolutions and are available for other purposes only to the extent they are not required to meet specified reserve and funding provisions of the resolutions. The Fund, to the extent such monies become available under the terms of the resolutions, has pledged to maintain the net position of its Bond Programs at a level to preserve the Fund's bond ratings. In the event that the Fund fails to comply with the terms of the bond resolutions the holders of such obligations would have recourse to the unrestricted assets of the Fund. The Land Development Program and the Bond Insurance Account are both restricted by State statute.

Assets of the General Account and Other Loan Programs are principally unrestricted and may be transferred to other programs subject to the approval of the Fund's management or Board of Directors. As of June 30, 2017, the Fund has committed $64,000 from the General Account and $26,058,000 from Other Loan Programs for various loans or projects and $3,532,000 from Other Loan Programs for the purchase of secondary market loans. In addition, the Fund has committed to sell loans to FNMA of $2,722,000 from Other Loan Programs. These amounts are included in *Unrestricted net position*. The Fund is actively accepting applications from prospective recipients to originate loans from amounts allocated by the Board of Directors from Other Loan Programs.

The Board of Directors has also allocated $1,000,000 of the *Unrestricted net position* for the "Directors' and Officers' Insurance Account" for the purpose of providing indemnification for the directors and officers of the Fund. The fiscal year 2018 administrative budget of $12,134,000 will be provided from the *Unrestricted net position* and from future revenues of the Fund.

NOTE C – CASH AND INVESTMENTS

The Fund's enterprise fund actively invests cash in conformity with the Act, the Bond Programs and the Board-approved Investment Policy. Permitted investments include a wide variety of securities and obligations such as certain corporate deposits, money market accounts, investment agreements or repurchase agreements with primary government dealers, direct obligations or obligations guaranteed by the State, United States government securities, or federal agency securities. Currently, the enterprise fund's investments consist primarily of United States government or agency securities, FDIC insured money markets, cash, FDIC insured certificates of deposits or collateralized certificates of deposit. The Investment Policy also permits the Fund to invest a maximum of $40,000,000 with the WVBOTI of which a maximum of $20,000,000 can be invested in the WVBOTI West Virginia Money Market Pool. The deposits with the WVBOTI are reported at amortized cost. The WVBOTI operates in accordance with applicable State laws and regulations.

The following is a detail of the Fund's enterprise fund investments, including cash equivalents, by type:

(Dollars in thousands)		June 30, 2017		June 30, 2016	
	Weighted Avg Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Reported at cost					
Demand Deposits, Money Market Funds	1 day	$ 43,656	$ 43,656	$ 77,263	$ 77,263
Mortgages held for investment purposes	22.54 years	16,712	16,712	17,410	17,410
Collateralized CDs	1.12 years	4,000	4,000	16,500	16,500
FDIC Insured CDs	314 days	6,800	6,800	4,700	4,700
WVBOTI deposits	1 day	22,550	22,550	13,410	13,410
Total		93,718	93,718	129,283	129,283
Reported at estimated fair value					
Fannie Mae MBS pools	13.67 years	1,309	1,446	1,628	1,815
Federal agency securities	3.91 years	92,655	101,098	51,328	62,682
U.S. Treasury securities	3.87 years	10,182	11,650	10,156	12,309
Total		104,146	114,194	63,112	76,806
Total investments, including cash equivalents		$ 197,864	$ 207,912	$ 192,395	$ 206,089

The Fund's fiduciary fund actively invests cash in conformity with the Act and the Board-approved Investment Policy. Permitted investments include a wide variety of securities and obligations such as certain corporate deposits, money market accounts, certificates of deposit, investment agreements or repurchase agreements with primary government dealers, direct obligations or obligations guaranteed by the State, United States government securities, or federal agency securities. Currently, the fiduciary fund's investments consist primarily of United States government or agency securities, FDIC insured money markets and negotiable certificates of deposit.

The following is a detail of the Fund's fiduciary fund investments, including cash equivalents, by type:

(Dollars in thousands)		June 30, 2017		June 30, 2016	
	Weighted Avg Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Reported at cost					
Money Market Funds	1 day	$ 984	$ 984	$ 619	$ 619
Total		984	984	619	619
Reported at estimated fair value					
Federal agency securities	193 days	700	700	1,352	1,366
U.S. Treasury securities	1.13 years	1,497	1,497	1,195	1,212
Certificates of deposit	1.21 years	2,246	2,245	1,744	1,753
Corporate deposits		-	-	250	250
Total		4,443	4,442	4,541	4,581
Total investments, including cash equivalents		$ 5,427	$ 5,426	$ 5,160	$ 5,200

Interest Rate Risk - Enterprise fund. The Investment Policy limits the weighted average maturity of various fund types as shown in the following chart. The Act does not provide for investment maturity limits. Reserve funds are the capital reserve investments required for the Bond Programs which are currently invested in long-term U.S. Government and government agency obligations and long-term certificates of deposit. The Bond Insurance Account, which provides additional reserves for the payment of the Housing Finance Bonds and the General New Issue Program Bonds, is currently invested in U.S. Government and government agency obligations as well as mortgage loans for investment purposes and certificates of deposit. Other funds consist of bond revenues to be used for debt service on the outstanding bonds, bond proceeds for the purchase of mortgage revenue bond loans, Other Loan Program funds and general operating funds. Other funds are primarily invested short-term to meet program funding needs and to provide for daily operational costs of the Fund. Funds held for others consist of single family and multifamily escrow funds as well as amounts to be remitted to others. The Fund has both the intent and the ability to hold long-term securities until final maturity and is therefore limited in its exposure to interest rate risk on these long-term obligations.

	Permitted Maturity Limit	Average Maturity as of June 30, 2017
Reserve Funds	30 Years	8 years
Bond Insurance Funds	15 Years	8 years
Other Funds	4 years	4 months
Funds held for others*		1 day

*Funds held for others not applicable to limit calculations

Interest Rate Risk – Fiduciary fund. The Fiduciary fund does not have a Board-approved policy for interest rate risk. The fiduciary fund's Board-approved investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Fiduciary fund investments are managed at an appropriate average duration based on current interest rate environments.

Credit Risk – Enterprise fund. Although permitted by the Act, the Fund's Investment Policy prohibits investment in State and Local obligations other than West Virginia and prohibits investment in corporate debt instruments. The Fund's Investment Policy additionally requires repurchase agreements to be invested with banks or primary dealers which are rated or provide the necessary collateral to maintain the Fund's bond, note and issuer ratings. Furthermore the Investment Policy limits collateral for repurchase agreements to direct federal and federally guaranteed obligations, and federal agency obligations.

As of June 30, 2017, the Fund's investments in the WVBOTI are rated AAAm. Federal agency securities consist of Fannie Mae, Federal Farm Credit Bank, Federal Home Loan Bank and Freddie Mac all of which are rated AA+. Fannie Mae MBS pools are also rated AA+. Insured Cash Sweep (ICS) Funds and the Demand Deposit Marketplace Funds are FDIC insured. Certificates of deposit are either FDIC insured through the Certificate of Deposit Account

Registry Service (CDARS) or collateralized with an irrevocable standby letter of credit issued by the Federal Home Loan Bank of Pittsburgh, which is rated AA+. Money Market Funds are invested in the Federated Government Obligations Fund and are rated AAAm. Mortgages held for investment purposes are not rated.

Credit Risk – Fiduciary fund. The fiduciary fund has not adopted a Board-approved credit risk policy. The trustee is to purchase U.S. Treasury Securities that are backed by the full faith and credit of the United States, Federal agency securities, which are rated AA+ and FDIC insured certificates of deposit.

Concentration of Credit Risk – Enterprise fund. The Investment Policy limits the percentage or amount of the investment portfolio that may be invested in various types of issuers as indicated in the chart below. The Act does not limit the percentage of investments in any permitted investment type.

As of June 30, 2017 (Dollars in thousands)	**Maximum of Portfolio**	**Invested Funds**	**% of Total Investment**
Direct Federal Obligations	100%	$ 10,182	6%
Federal Agency Obligations	90%	93,964	51%
Federally Guaranteed Obligations	100%	-	0%
Demand Deposits, Time Deposits	30%	20,081	11%
Demand Deposit Marketplace, FDIC Insured	$17,000	-	0%
Collateralized CDs	$75,000	4,000	2%
CDARS FDIC Insured CDs	$50,000	6,800	4%
West Virginia Obligations	15%	-	0%
ICS FDIC Insured Money Market Funds	$75,000	12,680	7%
Mortgages Held for Investment Purposes	30%	16,712	9%
Money Market Funds	25%	513	0%
WVBOTI deposits	$40,000	19,063	10%
TOTAL		$ 183,995	100%
Funds Held for Others *	N/A	13,869	
TOTAL INVESTED FUNDS		$ 197,864	

* Funds held for others not applicable to limit calculations.

Concentration of Credit Risk – Fiduciary fund. The fiduciary fund has not adopted a Board-approved concentration of credit risk policy. The trustee monitors and limits exposure to any one government agency or issuer to 10% of the market value of the portfolio.

Custodial Credit Risk – Deposits - The Act requires all deposits to be FDIC insured or fully collateralized by permitted investments for both enterprise funds and fiduciary funds. The enterprise fund Investment Policy further limits the securities permitted as collateral for amounts in excess of FDIC insurance to direct federal or federally guaranteed obligations, federal agency, or State of West Virginia obligations.

The enterprise fund cash, including escrow funds, had a carrying value of $43,656,000 and $77,263,000 as of June 30, 2017 and 2016, respectively. Bank balances approximated $44,576,000 and $78,312,000 as of June 30, 2017 and 2016, respectively, of which approximately $29,540,000 and $56,851,000 was covered by federal depository insurance as of June 30, 2017 and 2016, respectively, and $14,523,000 and $21,265,000 was either collateralized with securities pledged to the Fund and held by the trust department of the pledging financial institution or held and pledged to the Fund by the pledging financial institution's agent as of June 30, 2017 and 2016, respectively. Also included in the bank balances above are trust account money market fund balances of $513,000 and $196,000 as of June 30, 2017 and 2016, respectively, which are not subject to custodial credit risk.

The fiduciary fund cash had a carrying value of $984,000 and $619,000 as of June 30, 2017 and 2016, respectively. Bank balances approximated $985,000 and $619,000 as of June 30, 2017 and 2016, respectively, which are trust account money market funds and not subject to custodial credit risk.

Custodial Credit Risk – Investments – The Investment Policy requires purchased securities to be physically delivered to the Fund's custodian or trustee or, in the case of book-entry securities; registration books shall designate the custodian or trustee. The Investment Policy also requires collateral for repurchase agreements be delivered to a third party custodian or in the case of book-entry securities, be registered to the Fund. All U.S. government and agency obligations owned by the Fund are registered in the Fund's name or the Fund's designated trustee. The Act does not address custodial credit risk for investments.

Fair value hierarchy: The fair value hierarchy established under GASB Statement No. 72 categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to quoted prices in active markets inputs (Level 1) and the lowest priority to unobservable inputs (Level 3).

The levels of the hierarchy are identified as follows:

> Level 1 – Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities in an active market.
>
> Level 2 – Valuation is based upon inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
>
> Level 3 – Valuation is based upon unobservable inputs for an asset or liability.

Enterprise fund investments measured at fair value using the fair value hierarchy categories are as follows:

(Dollars in thousands)	June 30, 2017	June 30, 2016
Level 1 inputs		
Federal agency securities	$ 101,098	$ 62,682
U.S. Treasury securities	11,650	12,309
Total	112,748	74,991
Level 2 inputs		
Fannie Mae MBS pools	1,446	1,815
Total	1,446	1,815
Total investments, reported at estimated fair value	$ 114,194	$ 76,806

Fiduciary fund investments measured at fair value using the fair value hierarchy categories are as follows:

(Dollars in thousands)	June 30, 2017	June 30, 2016
Level 1 inputs		
Federal agency securities	$ 700	$ 1,366
U.S. Treasury securities	1,497	1,212
Certificates of deposit	2,245	1,753
Corporate deposits	-	250
Total investments, reported at estimated fair value	$ 4,442	$ 4,581

Mortgages held for investment are included in *Mortgage loans, net of allowances* and *Restricted mortgage loans, net of allowances* on the Statements of Net Position. Investments are included in the accompanying enterprise fund financial statements as follows:

(Dollars in thousands)	June 30, 2017	June 30, 2016
Cash and cash equivalents	$ 21,038	$ 15,291
Current restricted cash and cash equivalents	39,822	42,775
Noncurrent restricted cash and cash equivalents	48,708	37,107
Restricted investments	81,632	93,506
Plus mortgages held for investment purposes	16,712	17,410
Total Investments and cash equivalents	$ 207,912	$ 206,089
Less unrealized gains	10,048	13,694
Total Invested Funds	$ 197,864	$ 192,395

Investments are included in the accompanying fiduciary fund financial statements as follows:

(Dollars in thousands)	June 30, 2017	June 30, 2016
Restricted cash and cash equivalents	$ 984	$ 619
Restricted investments	4,442	4,581
Total Investments and cash equivalents	$ 5,426	$ 5,200
Less unrealized (losses) gains	(1)	40
Total Invested Funds	$ 5,427	$ 5,160

The enterprise fund has an unrealized gain on investments of $10,048,000 and $13,694,000 as of June 30, 2017 and 2016, respectively. This represents a decrease in unrealized gain on investments of $3,646,000 and $2,014,000 from the June 30, 2016 and 2015, respectively. In connection with the unrealized gain, $1,069,000 and $1,446,000 is recorded as a liability for related investment earnings as of June 30, 2017 and 2016, respectively. This portion is recorded as a liability because, if this gain were realized, it would increase excess rebateable investment earnings pursuant to Section 103A of the Internal Revenue Code, as amended (the Code). To adjust the fair value of investments to reflect this unrealized gain at June 30, 2017 and 2016 and to properly reflect the rebate liability, a $3,270,000 decrease and $1,588,000 decrease was recorded in *Net investment earnings* in the Statements of Revenues, Expenses, and Changes in Fund Net Position for year ended June 30, 2017 and 2016, respectively.

The fiduciary fund has an unrealized loss on investments of $1,000 and an unrealized gain on investments of $40,000 as of June 30, 2017 and 2016, respectively. This represents a decrease in unrealized gain on investments of $41,000 and an increase in unrealized gain on investments of $14,000 from the June 30, 2016 and 2015, respectively. To adjust the fair value of investments to reflect this unrealized gain at June 30, 2017 and 2016 a $41,000 decrease and a $14,000 increase was recorded in *Net investment income* in the Statements Changes in Fiduciary Net Position for year ended June 30, 2017 and 2016, respectively.

NOTE D – BONDS PAYABLE

The Act authorizes the Fund to issue bonds and notes for its various programs in an aggregate principal amount not to exceed $1,250,000,000 outstanding at any one time, exclusive of refunded obligations. Bonds and notes issued by the Fund are considered obligations of the Fund and are not deemed to constitute a debt or liability of the State.

The proceeds from the Fund's Bond Programs are used to finance mortgage loans to eligible State borrowers and to establish certain reserves as required by the resolutions. The mortgage loans are secured by deeds of trust and approximately 62.42% of all Bond Program loans are subject to coverage under federal or private mortgage insurance or guarantee programs. All bonds are secured by a pledge of all mortgage loan repayments, all proceeds of federal or private mortgage insurance, interest received on any monies or securities held pursuant to the resolutions, and the rights and interest of the Fund in and to the mortgage loans. Principal and interest paid on bonds and notes payable for the year ended June 30, 2017 and 2016 was $62,153,000 and $69,964,000, respectively. In addition, 2017 and 2016 included the refunding of bonds in the amount of $14,505,000 and $40,060,000, respectively. The 2017 refundings reduced total debt service payments over the next 17 years by approximately $4,645,000 and resulted in an economic gain (difference between the present value of the debt service payments of the refunded bonds and refunding bonds) of approximately $1,861,000. Total pledged revenues in 2017 and 2016 were $99,904,000 and $102,773,000, respectively.

The On-Site Systems Loan Program (the OSLP) was created in September 2007 in partnership with the West Virginia Department of Environmental Protection (the DEP). Under this program the Fund may borrow funds from the DEP Clean Water Revolving Loan Fund. These funds are then loaned to State residents to upgrade, replace or repair inadequate septic systems. Initially, the Board authorized $1,000,000 for the OSLP and in March 2013 the Board authorized an additional $1,000,000 for the program. The Fund is obligated to repay the amount borrowed from the DEP only to the extent the Fund receives payments from loan recipients. At June 30, 2017, *Bonds & notes payable - noncurrent* includes a $751,000 note payable due to DEP related to this program under Other Loan Programs.

Most bonds issued by the Fund are subject to redemption at the option of the Fund prior to maturity at dates and premiums as set forth in the bond resolutions. To reduce its debt expense, the Fund redeems bonds prior to their stated maturity dates primarily due to excess program revenues, the prepayments of mortgage loans pledged for the repayment of the bonds, excess amounts in the capital reserve funds, and/or from proceeds of refunding bonds. During the fiscal years ended June 30, 2017 and 2016, the Fund redeemed or refunded $38,495,000 and $72,880,000 of bonds, respectively, at redemption prices that approximated their carrying value.

The following charts summarize bond and note activity from 2016 to 2017 and 2015 to 2016, respectively.

	Bonds Payable Current	Bonds & Notes Payable Noncurrent	Bonds & Notes Payable Total
Outstanding Balance, June 30, 2016	$ 33,975	$ 329,905	$ 363,880
Debt Issued	-	39,755	39,755
Debt Paid	(27,075)	(121)	(27,196)
Early Redemptions/Refundings	(5,000)	(33,495)	(38,495)
Amortization of Premium	-	(173)	(173)
Reclassification from noncurrent to current	33,815	(33,815)	-
Outstanding Balance, June 30, 2017	$ 35,715	$ 302,056	$ 337,771

	Bonds Payable Current	Bonds & Notes Payable Noncurrent	Bonds & Notes Payable Total
Outstanding Balance, June 30, 2015	$ 32,765	$ 358,682	$ 391,447
Debt Issued	-	70,060	70,060
Debt Paid	(24,240)	(218)	(24,458)
Early Redemptions/Refundings	(3,970)	(68,910)	(72,880)
Amortization of Premium	-	(289)	(289)
Reclassification from noncurrent to current	29,420	(29,420)	-
Outstanding Balance, June 30, 2016	$ 33,975	$ 329,905	$ 363,880

The following is a summary of the bonds outstanding in the Housing Finance Bond Program and the General New Issue Bond Program and notes outstanding in Other Loan Programs:

	Original Amount Authorized	Outstanding at June 30, 2017	2016
	(Dollars in thousands)		
HOUSING FINANCE BOND PROGRAM			
2007 Series A	$ 60,000	$ -	$ 18,250
2007 Series B	40,000	-	985
2007 Series C	35,000	-	940
2010 Series A,B,C (3.65% to 4.25%), due 2017-2020	130,870	15,825	25,875
2011 Series A (2.709% to 3.622%), due 2017-2021	50,000	24,040	28,965
2013 Series A (1.30% to 3.20%) due 2017-2028	21,000	16,160	17,380
2013 Series B,C (1.95% to 4.50%) due 2017-2029	47,500	23,355	28,245
2014 Series A,B (1.20% to 4.10%), due 2017-2036	48,865	38,415	43,035
2015 Series A,B (1.10% to 3.95%), due 2017-2036	50,660	41,400	46,410
2015 Series C,D (1.10% to 4.10%), due 2017-2041	70,060	63,580	68,860
2017 Series A,B (1.05% to 4.125%), due 2017-2047	39,505	39,505	-
GENERAL NEW ISSUE BOND PROGRAM			
2011 A (2.32% to 3.80%), due 2017-2041	51,850	32,500	36,865
2012 A (1.60% to 3.35%), due 2017-2041	66,770	42,240	47,275
Total bonds payable, excluding unamortized premium		337,020	363,085
Unamortized bond premium, net		-	173
OTHER LOAN PROGRAMS			
Notes Payable (0.00%) [1]	2,000	751	622
Total bonds & notes payable, net of unamortized premium		$ 337,771	$ 363,880

[1] Payments are due to the DEP as the Fund receives payments from OSLP loan recipients.

Total bonds payable does not include $7,630,000 in special obligation bonds issued by the Fund as a conduit issuer. These special obligation bonds are secured by loan payments and deeds of trust on three projects. None of the Fund's assets or revenues are pledged to the payment of these special obligations. Furthermore, these special obligations are not secured by the Fund's general obligation debt pledge or its moral obligation and are not included in the Fund's financial statements.

The following is a summary of scheduled annual principal and interest for bonds in the Bond Programs for the five years commencing July 1, 2017 and thereafter to maturity.

Bonds Maturing During Year Ending June 30:	Principal	Interest	Total
		(Dollars in thousands)	
2018	(1) $ 35,715	$ 10,170	$ 45,885
2019	29,155	9,393	38,548
2020	26,225	8,632	34,857
2021	23,405	7,974	31,379
2022	20,390	7,312	27,702
2023-2027	73,575	28,851	102,426
2028-2032	57,895	17,924	75,819
2033-2037	46,750	8,269	55,019
2038-2042	20,435	2,343	22,778
2043-2047	3,175	416	3,591
2048	300	6	306
	$ 337,020	$ 101,290	$ 438,310

(1) Includes the anticipated redemptions of General New Issue Bond Program Bonds in the amount of $2,020,000 and Housing Finance Bonds in the amount of $5,950,000.

In accordance with Section 103A of the Code, the Fund has established allowances for excess rebateable investment earnings. The excess rebateable investment earnings arise due to actual investment yields earned by the Fund being greater than yields permitted to be retained by the Fund under the Code. The Code requires such excess investment earnings to be remitted to the Internal Revenue Service. As of June 30, 2017 and June 30, 2016 the Fund does not have any excess rebateable investment earnings other than the rebate liability as explained in *Note C - Cash and Investments*. Future excess investment earnings may require the establishment of liabilities for these and other bond issues.

NOTE E - CONTINGENT LIABILITIES AND RISK MANAGEMENT

Under the terms of certain federal programs, periodic audits are required and certain costs and expenditures may be questioned as not being appropriate under the terms of the program. Such audits could lead to reimbursements to the grantor agencies. Historically, questioned costs have been insignificant. Management of the Fund believes future disallowances relating to current federal program expenditures, if any, will continue to be insignificant.

The Fund is a defendant in various legal proceedings arising in the normal course of business. In the opinion of management and its legal counsel the ultimate resolution of these proceedings will not have a material adverse effect on the Fund’s financial position.

Through its business operations, the Fund is exposed to various risks of loss related to potential loan losses on program mortgages, fire, liability, and employee wrongdoing. To reduce risk of loss on program mortgages, the Fund has various types of mortgage insurance. At June 30, 2017, 42.26% of the Fund’s single family Bond Program loans were VA, USDA Rural Development, or FHA guaranteed. Another 20.16% of these loans carry private mortgage insurance. Substantially all permanent multifamily mortgages are federally insured or guaranteed and/or are subject to HUD Section 8 rental assistance subsidies.

The Fund is insured against fire for owned assets, liability, and employee negligence through private insurance. Furthermore, key staff members of the Fund are bonded against theft in the aggregate amount of $4,000,000. The Board of Directors has allocated $1,000,000 of the Fund’s unrestricted net position to provide indemnification for the directors and officers of the Fund. Additionally, the Fund has general liability insurance with the State Board of Risk and Insurance Management in the amount of $1,000,000 per occurrence and excess liability coverage of $10,000,000 aggregate with General Star Insurance Company for officers’ and directors’ indemnity. The Fund pays an annual premium in exchange for such coverage. There have been no significant settlements in excess of insurance coverage during the past three calendar years.

NOTE F - RETIREMENT PLAN

Plan Description. All full-time Fund employees participate in the State’s Public Employees’ Retirement System (PERS), a multiple-employer defined benefit cost-sharing public employee retirement system administered by the West Virginia Consolidated Public Retirement Board (CPRB). Benefits under PERS include deferred retirement, early retirement, death, and disability benefits and have been established and may be amended by action of the State Legislature. The CPRB issues a publicly available financial report that includes financial statements for PERS that may be obtained at www.wvretirement.com.

Benefits Provided. Employees are eligible for normal retirement at age 60 with five or more years of credited service, or at least age 55 with age and service equal to 80 or greater. For all employees hired on or after July 1, 2015, qualification for normal retirement is age 62 with ten years of service or at least age 55 with age and service equal to 80 or greater. The straight-life annuity retirement benefit, established by State statute, is equivalent to two percent of the employee’s final average salary multiplied by years of service. Final average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. For all employees hired on or after July 1, 2015, average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings. Terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employee hired on or after July 1, 2015, this age increases to age 64.

Contributions. While contribution rates are legislatively determined, actuarial valuations are performed to assist PERS and the State Legislature in determining contribution rates. Current funding policy requires employer contributions of 12.0%, 13.5% and 14.0% for the years ended June 30, 2017, 2016 and 2015, respectively. As permitted by legislation, the Fund has elected to pay 100% of all costs relating to the Plan, including the employee's 4.5% contribution for employees hired on or before February 6, 2012. Beginning February 7, 2012, new hires are required to pay the employee's contribution of 4.5%. For all employees hired on or after July 1, 2015 the employee contribution is 6.0%. The Fund's contribution to the Plan, excluding the employee's contribution paid by the Fund, approximated $622,000, $714,000, and $785,000 for the fiscal years ended June 30, 2017, 2016, and 2015, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017 and June 30, 2016 respectively, the Fund reported a liability of $3,526,000 and $2,310,000 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2017 was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015, rolled forward to the measurement date of June 30, 2016. The Fund's proportion of the net pension liability was based on the Fund's share of contributions to the pension plan relative to the contributions of all employers participating in PERS for the year ended June 30, 2016. At June 30, 2016 and June 30, 2015, the Fund's proportionate share was 0.38% and 0.41%, respectively.

For the years ended June 30, 2017 and June 30, 2016, respectively, the Fund recognized pension expense of $569,000 and $303,000. At June 30, 2017 and June 30, 2016, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(Dollars in thousands)	June 30, 2017	
	Deferred Outflows of Resouces	**Deferred Inflows of Resources**
Net difference between projected and actual earnings on pension plan investments	$ 1,108	$ -
Difference between expected and actual experience	294	-
Difference in assumptions	-	172
Changes in proportion and differences between Fund contributions and proportionate share of contributions	46	144
Fund contributions made subsequent to the measurement date	622	-
	$ 2,070	**$ 316**

(Dollars in thousands)	June 30, 2016	
	Deferred Outflows of Resouces	**Deferred Inflows of Resources**
Net difference between projected and actual earnings on pension plan investments	$ 705	$ 1,211
Difference between expected and actual experience	472	-
Difference in assumptions	-	278
Changes in proportion and differences between Fund contributions and proportionate share of contributions	84	-
Fund contributions made subsequent to the measurement date	714	-
	$ 1,975	**$ 1,489**

Deferred outflows of resources related to pensions of $622,000 resulting from Fund contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

(Dollars in thousands)

Year Ended June 30:	Pension Expense
2018	$ 182
2019	155
2020	459
2021	336

Actuarial Assumptions and Methods. The following assumptions and methods were used in the actuarial valuation:

	2016	2015
Actuarial cost method	Individual entry age normal cost with level percentage of payroll	Individual entry age normal cost with level percentage of payroll
Asset valuation method	Fair value	Fair value
Amortization method	Level dollar, fixed period	Level dollar, fixed period
Amortization period	Through Fiscal Year 2035	Through Fiscal Year 2035
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases:		
State	3.0 - 4.6%	3.0 - 4.6%
Non-state	3.35 - 6.0%	3.35 - 6.0%
Inflation rate	3.00%	1.90%
Discount rate	7.50%	7.50%
Mortality rates	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA fully generational	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA fully generational
	Healthy females - 101% of RP-2000 Non-Annuitant, Scale AA fully generational	Healthy females - 101% of RP-2000 Non-Annuitant, Scale AA fully generational
	Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA fully generational	Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA fully generational
	Disabled females - 107% of RP-2000 Disabled Annuitant, Scale AA fully generational	Disabled females - 107% of RP-2000 Disabled Annuitant, Scale AA fully generational
Withdrawal rates		
State	1.75 - 35.1%	1.75 - 35.1%
Non-state	2 - 35.8%	2 - 35.8%
Disability rates	0 - .675%	0 - .675%
Retirement rates	15% - 100%	15% - 100%
Date range in most recent experience study	2009-2014	2009-2014

The long-term expected rate of return on pension plan investments was determined using the building-block method in which estimates of expected future real rates of return (expected returns, net of pension plan investment expenses and 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. Best estimates of long-term geometric rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Weighted Average Expected Real Rate of Return
US Equity	27.5%	7.0%	1.92%
International equity	27.5%	7.7%	2.12%
Core fixed income	7.5%	2.7%	0.20%
High yield fixed income	7.5%	5.5%	0.41%
TIPS	0.0%	2.7%	0.00%
Real estate	10.0%	7.0%	0.70%
Private equity	10.0%	9.4%	0.94%
Hedge funds	10.0%	4.7%	0.47%
Total	100%		6.76%
Inflation (CPI)			1.90%
			8.66%

Discount Rate. The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will continue to be made at statutorily required rates, which are determined annually based on actuarial valuations. 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 active and inactive employees. 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. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

Sensitivity of the Fund's proportionate share of the net pension liability to changes in the discount rate. The following table presents the Fund's proportionate share of the net pension liability calculated using the discount rate of 7.5% as well as what the Fund's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

(Dollars in thousands)

Net Pension Liability (Asset)		
1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
$ 6,383	$ 3,526	$ 1,100

NOTE G – COMPENSATED ABSENCES

Employees accumulate annual leave balances to maximum amounts ranging from 210 to 420 hours. Most employees receive a 100% termination payment upon separation based upon their final rate of pay. The liability for annual leave is valued at 100% of the balance plus the Fund's share of Social Security and Medicare contributions. The Fund has recorded a liability for accrued leave for all employees in accordance with GAAP. The liability for annual leave is shown below. In lieu of cash payment at retirement, an employee can elect to use accumulated annual leave toward additional service in the computation of retirement benefits or toward their postemployment health care insurance premium as further explained in *Note H – Postemployment Healthcare Plan.*

Accumulated Annual Leave:			
(Dollars in thousands)	**2017**	**2016**	**2015**
Balance at beginning of fiscal year	$ 392	$ 366	$ 426
Annual leave earned	500	523	589
Annual leave (used)	(478)	(497)	(649)
Balance at end of fiscal year	$ 414	$ 392	$ 366

NOTE H - POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description

Plan administration. The Welfare Benefit Plan (the Plan), an irrevocable trust, is a single-employer defined other postemployment benefit plan administered by the Fund and the Fund's Board of Directors that is used to provide postemployment benefits other than pensions (OPEB) for employees of the Fund. Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the Fund. The assets of the Plan are deposited with an external trustee and are presented in the fiduciary fund financial statements.

Benefits provided. The Fund provides certain healthcare insurance benefits for retired employees and their eligible dependents. Benefits are fully self-insured by the Fund and are administered through a third-party administrator. The full cost of benefits is covered by the plan. Management of the Fund has the authority to establish and amend benefit provisions to the Plan.

Employees covered by benefit terms. At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	11
Inactive employees entitled to but not yet receiving benefit payments	-
Active plan members	101
	112

Contributions. The contribution requirements of plan members and the Fund are established and may be amended by the Fund's management. Management establishes contribution rates based on an actuarially determined rate. Plan members are not required to contribute to the plan. In lieu of cash payment at retirement, an employee can elect to use accumulated annual and accumulated sick leave toward their postemployment health care insurance premium. A retiree may convert two unused leave days into one month's insurance premium for single coverage or three unused leave days into one month's premium for family coverage. The Fund will pay monthly health insurance premiums of these retirees based on unused sick leave and/or annual leave at the time of retirement until the unused leave is fully utilized or until the retiree reaches the eligible age for Medicare. Accordingly, the maximum period for which a retiree may be entitled to such benefits would be twelve years. The Fund's contribution to the Plan approximated $405,000, and $723,000 for the fiscal years ended June 30, 2017 and 2016, respectively.

Investments

Investment policy. The Plan's policy in regard to the allocation of invested assets is established and may be amended by Management of the Fund. Investments are to be diversified as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so in the sole judgement of the Trustee.

Rate of Return. For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was .66 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

The components of the net OPEB liability of the Fund at June 30, 2017, were as follows:

(Dollars in thousands)		
Total OPEB Liability	$	5,579
Plan Fiduciary Net Position		5,433
Net OPEB Liability	$	146
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability		97.40%

Actuarial assumptions and methods. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions and methods:

Valuation Date	1/1/2016 Rolled forward to 6/30/2017
Actuarial Method	Entry Age Normal
Amortization Method	Level Percentage of Pay Closed
Remaining Amortization Period	21 years as of 1/1/2016
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Investment Rate of Return	4.50%
Salary Increases	3.00%
Ultimate Rate of Medical Inflation	4.00%
General Rate of Inflation	2.00%

Mortality rates were based on RP-2000 combined healthy mortality table sex distinct projected generational mortality using Scale AA.

An actuarial experience study was not completed. Actuarial assumptions were based on the West Virginia Public Employees Insurance (PEIA) actuarial valuation as of July 1, 2014.

The long-term expected rate of return on the Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and cash equivalents	10.0%	1.00%
U.S. Government Obligations	90.0%	1.90%
Total	100.0%	

Discount rate. The discount rate as of June 30, 2017 is 4.50%, which is the assumed long-term expected rate of return on Plan investments. This is the same discount rate that was used for June 30, 2016 and in the prior January 1, 2016 liability calculations. Projections of the Plan's fiduciary net position have indicated that it is expected to be sufficient to make projected benefit payments for current plan members. As such, the single rate of return is equal to the long-term expected rate of return on the Plan assets, which is 4.50%.

Development of discount rate. The Plan uses the Bond Buyer GO 20-Bond Municipal Bond Index. As this index is issued weekly, the value closest to but not after the reporting date is used in determining the appropriate rate. Based on this practice, the municipal bond rate at June 30, 2016 was 2.85% and the municipal bond rate at June 29, 2017 was 3.58%. However, the depletion test as of the most recent actuarial valuation as of January 1, 2016, reflecting known contributions after that date as well as the current funding policy, showed that the projected assets are expected to cover future benefit payments for current participants and as such the single rate used as the discount rate is the long-term expected rate of return, 4.50%. The actuarial liability, normal cost, and expected benefit payments were projected for the remaining lifetimes of the closed group population as of January 1, 2016 using the assumptions detailed in the 2016 actuarial valuation report. An Actuarily Determined Contribution (ADC) was calculated each year based on the current closed amortization period. The assets were then projected forward reflecting known contributions through June 30, 2017, and then assuming the ADC is contributed going forward. Since the assets are projected to always be greater than the expected benefit payments in any year, the long-term expected rate of return of 4.50% is used to calculate the liabilities.

Changes in the Net OPEB Liability

At June 30, 2017, the Fund reported a liability of $146,324 for its Net OPEB Liability (NOL). The Total OPEB Liability (TOL) at the beginning of the current measurement year is measured as of a valuation date of January 1, 2016 and rolled forward to June 30, 2016. The TOL at the end of the measurement year, June 30, 2017, is measured as of a valuation date of January 1, 2016 and projected to June 30, 2017. In future years, valuations will be completed every other year.

(Dollars in thousands)	Increase (Decrease)		
	Total OPEB Liability (a)	**Plan Fiduciary Net Position (b)**	**Net OPEB Liability (a) - (b)**
Balances at 6/30/2016	$ 5,402	$ 5,240	$ 162
Changes for the year:			
Service cost	150	-	150
Interest	245	-	245
Changes of benefits	-	-	-
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	405	(405)
Contributions - member	-	-	-
Net investment income	-	22	(22)
Benefit payments	(218)	(218)	-
Administrative expense	-	(16)	16
Net changes	177	193	(16)
Balances at 6/30/2017	$ 5,579	$ 5,433	$ 146

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the Fund, as well as what the Fund's net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (3.5 percent) or one-percentage-point higher (5.5 percent) than the current discount rate:

(Dollars in thousands)	**1% Decrease 3.50%**	**Discount Rate 4.50%**	**1% Increase 5.50%**
Total OPEB Liability	$ 6,131	$ 5,579	$ 5,102
Plan Fiduciary Net Position	5,433	5,433	5,433
Net OPEB Liability (Asset)	$ 698	$ 146	$ (331)
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	88.60%	97.40%	106.50%

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the Fund, as well as what the Fund's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates:

(Dollars in thousands)	Trend Minus 1%	Baseline Trends	Trend Plus 1%
Total OPEB Liability	$ 4,980	$ 5,579	$ 6,282
Plan Fiduciary Net Position	5,433	5,433	5,433
Net OPEB Liability (Asset)	$ (453)	$ 146	$ 849
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	109.10%	97.40%	86.50%

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

For the year ended June 30, 2017, the Fund recognized OPEB expense of $214,668. At June 30, 2017, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

(Dollars in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	174	-
Total	$ 174	$ -

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

(Dollars in thousands)	
Year ended June 30:	
2018	$ 44
2019	44
2020	44
2021	42
Thereafter	-

NOTE I – SUBSEQUENT EVENTS

On August 1, 2017, the Fund redeemed various Housing Finance Bonds and General New Issue Bond Program Bonds in advance of the scheduled maturities at a par amount of $7,970,000.

NOTE J - NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued Statement No. 82, *Pension Issues- an amendment of GASB Statements No. 67, No. 69, and No. 73;* Statement No. 84, *Fiduciary Activities,* Statement No. 86, *Certain Debt Extinguishment Issues* and Statement No. 87, *Leases.* A portion of the provisions of Statement No. 82 and 86 are effective for periods beginning after June 15, 2017. The provisions of Statement No. 84 are effective for periods beginning after December 15, 2018. The provisions of Statement No. 87 are effective for periods beginning after December 15, 2019. The Fund has not yet determined the effect, if any, these statements will have on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILTIY PERS

(Dollars in thousands)	Year Ended June 30 2017	2016	2015
The Fund's proportionate (percentage) of the net pension liability	0.383639%	0.413624%	0.413581%
The Fund's proportionate share of the net pension liability	$ 3,526	$ 2,310	$ 1,526
The Fund's covered payroll	$ 5,286	$ 5,609	$ 5,538
The Fund's proportionate share of the net pension liability as a Percentage of its covered payroll	66.70%	41.18%	27.56%
Plan fiduciary net position as a percentage of the total pension liability	86.11%	91.29%	93.98%

Note: All amounts presented are as of the measurement date, which is one year prior to the fiscal year end date

SCHEDULE OF CONTRIBUTIONS TO THE PERS

(Dollars in thousands)	Year Ended, June 30, 2017	2016	2015	2014	2013
Statutorily required contribution	$ 622	$ 714	$ 785	$ 803	$ 743
Contributions in relation to the statutorily required contribution	622	714	785	803	743
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Fund's covered payroll	$ 5,180	$ 5,286	$ 5,609	$ 5,538	$ 5,307
Contributions as a percentage of covered payroll	12.0%	13.5%	14.0%	14.5%	14.0%

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS POSTEMPLOYMENT HEALTHCARE PLAN

(Dollars in thousands)

		June 30, 2017
Total OPEB Liability		
Service cost	$	150
Interest (includes interest on service cost)		245
Changes of benefit terms		-
Differences between expected and actual experience		-
Changes of assumptions		-
Benefit payments		(218)
Net change in total OPEB liability	**$**	**177**
Total OPEB liability - beginning		**5,402**
Total OPEB liability - ending	**$**	**5,579**
Plan fiduciary net position		
Contributions - employer	$	405
Contributions - member		-
Net investment income		22
Benefit payments, including refunds of member contributions		(218)
Administrative expense		(16)
Net change in plan fiduciary net position	**$**	**193**
Plan fiduciary net position - beginning		**5,240**
Plan fiduciary net position - ending	**$**	**5,433**
Net OPEB liability - ending	**$**	**146**
Plan fiduciary net position as a percentage of the total OPEB liability		97.40%
Covered employee payroll		5,268
Net OPEB liability as a percentage of covered employee payroll		2.77%

SCHEDULE OF CONTRIBUTIONS TO THE POSTEMPLOYMENT HEALTHCARE PLAN

(Dollars in thousands)

		June 30, 2017
Actuarially determined contribution	$	162
Contributions in relation to the actuarially determined contribution		405
Contribution deficiency/(excess)		(243)
Covered employee payroll	$	5,268
Contributions as a percentage of covered employee payroll		7.69%

SCHEDULE OF ANNUAL RATE OF RETURN ON INVESTMENTS POSTEMPLOYMENT HEALTHCARE PLAN

	2017
Money-weighted rate of return, net of investment expense	0.66%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE A – TREND INFORMATION PRESENTED

The accompanying schedules of the Fund's proportionate share of the net pension liability and contributions to PERS and to the Postemployment Healthcare Plan are required supplementary information to be presented for 10 years. However, until a full 10-year trend is compiled, information is presented in the schedules for those years for which information is available.

NOTE B – ACTUARIAL ASSUMPTIONS AND METHODS

The information presented in the Schedule of Contributions to PERS was based on the actuarial valuation as of July 1, 2015 using the actuarial assumptions and methods as follows:

	2016 and 2015	2014
Actuarial cost method	Individual entry age normal cost with level percentage of payroll	Individual entry age normal cost with level percentage of payroll
Asset valuation method	Fair value	Fair value
Amortization method	Level dollar, fixed period	Level dollar, fixed period
Amortization period	Through Fiscal Year 2035	Through Fiscal Year 2035
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases:		
State	3.0 - 4.6%	4.25 - 6.0%
Non-state	3.35 - 6.0%	
Inflation rate	3%; (2015 - 1.90%)	2.20%
Discount rate	7.50%	7.50%
Mortality rates	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA fully generational	Healthy males - 1983 GAM
	Healthy females - 101% of RP-2000 Non-Annuitant, Scale AA fully generational	Healthy females - 1971 GAM
	Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA fully generational	Disabled males - 1971 GAM
	Disabled females - 107% of RP-2000 Disabled Annuitant, Scale AA fully generational	Disabled females - Revenue ruling 96-7
Withdrawal rates		
State	1.75 - 35.1%	1 - 26%
Non-state	2 - 35.8%	2 - 31.2%
Disability rates	0 - .675%	0 - .8%
Retirement rates	15% - 100%	15% - 100%
Date range in most recent experience study	2009-2014	2004-2009

The information presented in the Schedule of Contributions to the Postemployment Healthcare Plan was based on the actuarial assumptions and methods as follows:

Valuation date	1/1/2016 Rolled forward to 6/30/2017
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation completed during even calendar years
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value of Assets
Amortization Method	Level Percentage of Pay Closed
Remaining Amortization Period	21 years as of 1/1/2016
Actuarial Assumptions:	
Discount rate	4.50%
Salary Increases	3% total payroll growth
Healthcare cost trend rates	Pre-Medicare: 10.0% in calendar 2016 grading down to 4.0% over 15 years
	Medicare: 6.0% in calendar 2016 grading down to 4.0% over 15 years
	Administrative expenses: 4.0% per year

NOTE C – PLAN AMENDMENT

The PERS was amended to make changes which apply to new employees hired on or after July 1, 2015 as follows:

- For employees hired prior to July 1, 2015, qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. For employees hired on or after July 1, 2015, qualification for normal retirement is 62 with 10 years of service or at least age 55 with age and service equal to 80 or greater.

- The straight life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. For employees hired prior to July 1, 2015, average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. For all employees hired on or after July 1, 2015 average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings.

- For employees hired prior to July 1, 2015, terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired on or after July 1, 2015, this age increases to 64.

- For all employees hired prior to July 1, 2015, employees are required to contribute 4.5% of annual earnings. All employees hired on or after July 1, 2015, are required to contribute 6% of annual earnings.