



# West Virginia Housing Development Fund

## **AUDITED FINANCIAL STATEMENTS**

For the years ended June 30, 2018 and 2017

Audited Financial Statements

WEST VIRGINIA HOUSING DEVELOPMENT FUND

For the Years Ended June 30, 2018 and 2017

Audited Financial Statements

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## 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, 2018 and 2017, 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 audit. We conducted our audit 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Prior Period Financial Statements***

The financial statements as of June 30, 2017, were audited by Gibbons & Kawash, A.C., who merged with Brown, Edwards & Company, L.L.P. as of January 1, 2018, and whose report dated August 30, 2017, expressed an unmodified opinion on those statements.

### ***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 Welfare Benefit plan, the schedule of contributions to the Welfare Benefit plan, the schedule of annual rate of return on investments of the Welfare Benefit plan, the schedule of the proportionate share of the net OPEB liability West Virginia Public Employees Insurance Agency plan, the schedule of contributions to the West Virginia Public Employees Insurance Agency plan, and the accompanying notes to required supplementary information on pages 46 through 50 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.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia  
August 29, 2018

**WEST VIRGINIA HOUSING DEVELOPMENT FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**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, 2018, the Fund has provided assistance for more than 122,000 housing or housing-related units.

The permanent staff of the Fund consists of 102 persons as of June 30, 2018, 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 9 bond issues totaling \$280,730,000 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.<sup>1</sup>

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, Affordable Housing Fund, 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, Affordable Housing Fund, 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, 2018, 2017 and 2016.

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<sup>1</sup> 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.

## 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.

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)	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>			
Current assets	\$ 68,416	\$ 65,272	\$ 62,658
Noncurrent assets:			
Mortgage loans & Restricted mortgage loans, net of allowance for losses	640,514	648,321	665,141
Restricted Federal Program mortgage loans, net of allowance for losses	64,901	65,358	62,798
Restricted cash and cash equivalents	22,430	48,708	37,107
Investments & Restricted investments	75,667	81,632	93,506
Capital assets, net of depreciation	8,538	8,663	9,032
Other assets & Restricted other assets, net of allowance for losses	5,207	6,314	7,179
Total assets	<u>885,673</u>	<u>924,268</u>	<u>937,421</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pension and OPEB	<u>1,101</u>	<u>2,070</u>	<u>1,974</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and other liabilities	16,244	16,044	17,469
Accrued interest payable	1,464	1,795	1,903
Bonds payable	27,280	35,715	33,975
Noncurrent liabilities:			
Bonds & notes payable, net	254,324	302,056	329,905
Other liabilities	69,975	70,986	66,117
Total liabilities	<u>369,287</u>	<u>426,596</u>	<u>449,369</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pension and OPEB	<u>1,486</u>	<u>316</u>	<u>1,489</u>
<b>NET POSITION</b>			
Investment in capital assets	8,538	8,663	9,032
Net position - Restricted	429,722	413,345	412,542
Net position - Unrestricted	77,741	77,418	66,963
<b>TOTAL NET POSITION</b>	<u><u>\$ 516,001</u></u>	<u><u>\$ 499,426</u></u>	<u><u>\$ 488,537</u></u>

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 \$3,144,000 (4.8%) in *Current assets* from 2017 to 2018 was primarily due to the receipt of \$4,114,000 in cash related to the transfer of the West Virginia Affordable Housing Trust Fund (WVAHTF) to the Fund (See *Note I – Special Item - Transfer of Operations*), an increase of \$1,648,000 in cash for HOME program disbursements, a decrease of \$2,017,000 due to funds on hand at the end of fiscal year 2017 being used for bond redemptions and a decrease of \$840,000 in cash for program disbursements.

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.

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

The decrease of \$7,807,000 (1.2%) in *Mortgage loans & Restricted mortgage loans, net of allowance for losses* from 2017 to 2018 was primarily due to repayments and loan prepayments of \$74,026,000 exceeding originations of \$70,020,000, foreclosures of \$4,166,000 and the transfer of \$379,000 in mortgages related to the transfer of the WVAHTF to the Fund. See *Note I – Transfer of Operations*.

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.

**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 of HOME program loan originations and repayments during the years presented.

**Restricted cash and cash equivalents**

The decrease of \$26,278,000 (54.0%) in *Restricted cash and cash equivalents* from 2017 to 2018 was primarily due to a net decrease in the balance of funds available to purchase single family mortgage loans related to the timing of bond issuances.

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 related to the timing of bond issuances.

**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 to 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)	2018	2017	2016
Balance at beginning of fiscal year	\$ 81,632	\$ 93,506	\$ 82,223
Sales and maturities	(33,730)	(44,318)	(38,750)
Purchases	30,438	35,995	47,930
(Decrease) Increase in fair value of investments and amortizations	(2,673)	(3,551)	2,103
Balance at end of fiscal year	<u>\$ 75,667</u>	<u>\$ 81,632</u>	<u>\$ 93,506</u>



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

The decrease of \$125,000 (1.4%) from 2017 to 2018 was due to depreciation of the Fund’s office building, equipment, and software in the amount of \$399,000, net of purchases of \$274,000.

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.

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

The decrease of \$1,107,000 (17.5%) in Other assets and Restricted other assets, net of allowance for losses from 2017 to 2018 was primarily due to a decrease of \$840,000 in foreclosed properties and an increase of \$362,000 in allowance for loan loss.

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 a decrease of \$243,000 in allowance for loan loss.

**Deferred outflows of resources related to pension and OPEB and Deferred inflows of resources related to pension and OPEB**

See Note A – Accounting methods

Deferred outflows and inflows of resources are directly related to the activity described in Note F – Retirement Plan 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 – Other Postemployment Benefits to the financial statements in accounting for the changes in the Fund’s net OPEB liability.

**Accounts payable and other liabilities**

The increase of \$200,000 (1.2%) in Accounts payable and other liabilities from 2017 to 2018 was primarily due to an increase of \$366,000 in accrued expenses at year-end and a decrease of \$146,000 in tax and insurance accounts held on behalf of the Fund’s various mortgagors.

The decrease of \$1,425,000 (8.2%) in Accounts payable and other liabilities from 2016 to 2017 was 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.

**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 2018 and 2017. See Note D – Bonds & Notes payable, current and noncurrent.

(Dollars in thousands)	2018	2017	2016
Balance at beginning of the fiscal year			
Bonds payable - current	\$ 35,715	\$ 33,975	\$ 32,765
Bonds payable - noncurrent	302,056	329,905	358,682
Debt issued: Housing Finance Bonds	-	39,505	70,060
Other Loan Programs note payable	250	250	-
Debt paid: Scheduled debt service - Bonds & notes payable	(28,241)	(27,196)	(24,458)
Early redemptions and refundings	(28,195)	(38,495)	(72,880)
Amortization of bond premiums	-	(173)	(289)
Other Loan Programs note payable allowance for losses <sup>(1)</sup>	19	-	-
Balance at end of the fiscal year	<u>\$ 281,604</u>	<u>\$ 337,771</u>	<u>\$ 363,880</u>
Bonds payable - current	\$ 27,280	\$ 35,715	\$ 33,975
Bonds & notes payable - noncurrent	254,324	302,056	329,905
Total bonds & notes payable	<u>\$ 281,604</u>	<u>\$ 337,771</u>	<u>\$ 363,880</u>

<sup>(1)</sup> See Note D - Bonds Payable

### Other liabilities

The decrease of \$1,011,000 (1.4%) in Other liabilities from 2017 to 2018 was due to a decrease in the net pension liability of \$1,878,000, See Note F – Retirement Plan, an increase in the net OPEB liability of \$279,000 related to the adoption of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. See Note H – Other Postemployment Benefits and an increase of \$587,000 due to Federal Program mortgage loan originations exceeding repayments and prepayments.

The increase of \$4,869,000 (7.4%) in Other liabilities from 2016 to 2017 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.

Total Net Position improved by \$10,889,000 (2.2%) from June 30, 2016 to June 30, 2017. From June 30, 2017 to June 30, 2018, Total Net Position improved by \$16,575,000 (3.3%) as the enterprise fund net position improved to \$516,001,000 at June 30, 2018.

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)	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>			
Interest on loans	\$ 29,676	\$ 31,106	\$ 32,296
Pass-through grant revenue	69,164	72,124	75,910
Fee revenue	6,774	6,905	6,444
Net investment earnings (non-operating)	877	(82)	5,116
Other	1,439	1,416	1,407
Total Revenues	<u>107,930</u>	<u>111,469</u>	<u>121,173</u>
<b>EXPENSES</b>			
Pass-through grant expense	69,164	72,124	75,910
Interest and debt expense (non-operating)	9,573	10,686	12,183
Loan fees expense	3,676	3,538	3,943
Program expenses, net	2,357	3,547	3,551
Administrative expenses, net	9,946	10,685	10,852
Total Expenses	<u>94,716</u>	<u>100,580</u>	<u>106,439</u>
<b>INCOME BEFORE SPECIAL ITEM</b>	13,214	10,889	14,734
<b>SPECIAL ITEM - Transfer of operations <sup>(1)</sup></b>	<u>4,469</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	17,683	10,889	14,734
<b>NET POSITION AT BEGINNING OF YEAR</b>	499,426	488,537	473,803
<b>CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE <sup>(2)</sup></b>	<u>(1,108)</u>	<u>-</u>	<u>-</u>
<b>NET POSITION AT BEGINNING OF YEAR, AS RESTATED</b>	<u>498,318</u>	<u>488,537</u>	<u>473,803</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 516,001</u>	<u>\$ 499,426</u>	<u>\$ 488,537</u>

<sup>(1)</sup> See Note I - Special item - transfer of operations

<sup>(2)</sup> See Note A - Accounting methods

### Interest on loans

The decrease in Interest on loans of \$1,430,000 (4.6%) and \$1,190,000 (3.7%) from 2017 to 2018 and 2016 to 2017, 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 \$2,960,000 (4.1%) from 2017 to 2018 was primarily due to a decrease in HOME disbursements of \$4,303,000, an increase of \$925,000 in National Housing Trust Fund disbursements and an increase of \$417,000 in Section 8 Housing Assistance Payments Program (HAP) disbursements.

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 Section 8 Housing Assistance Payments Program (HAP) disbursements.

**Fee revenue**

The decrease of \$131,000 (1.9%) in Fee revenue from 2017 to 2018 was due to a decrease of \$88,000 in Low-Income Housing Tax Credit fees earned, a decrease of \$32,000 in Section 8 fees earned and a net decrease of \$6,000 in mortgage loan processing fees.

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.

**Net investment earnings**

Net investment earnings decreased \$5,198,000 (101.6%) from 2016 to 2017 and increased \$959,000 (1,169.5%) from 2017 to 2018 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 9.7% from 2016 to 2017 and increased 6.5% from 2017 to 2018 due to higher cash and investment balances and increases in rates throughout the year.

(Dollars in thousands)	June 30,		
	2018	2017	2016
Net investment income per operating statement	\$ 877	\$ (82)	\$ 5,116
Adjustments for unrealized loss (gain) on fair value of securities	2,518	3,270	(1,587)
Interest earned on investments	<u>\$ 3,395</u>	<u>\$ 3,188</u>	<u>\$ 3,529</u>
% Increase (Decrease) from prior year	6.5%	(9.7%)	

**Other revenues**

The increase of \$23,000 (1.6%) in Other revenues from 2017 to 2018 was primarily due to an increase in gains on sale of mortgage loans of \$50,000, net of a decrease of \$16,000 in gains on sale of foreclosed properties.

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.

**Interest and debt expense**

The \$1,113,000 (10.4%) decrease in Interest and debt expense from 2017 to 2018 was primarily due to \$56,436,000 in bond redemptions and debt service and no bond issuances during 2018.

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.

**Loan fees expense**

The \$138,000 (3.9%) increase in Loan fees expense was primarily due to an increase in loan origination fees of \$255,000, which was a result of an increase in the fee paid to lenders to originate a loan and an increase in the number of loan originations, a

decrease in service fees on loans of \$63,000 and a decrease in service release fees of \$58,000.

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.

**Program expenses, net**

The \$1,190,000 (33.5%) decrease in *Program expenses, net* from 2017 to 2018 was primarily due to a \$410,000 decrease in Special Needs disbursements, a \$383,000 decrease in cost of issuance expenses, a \$260,000 decrease in bad debt expense and a \$137,000 decrease in losses on sale of foreclosed properties.

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 expense, net of a \$480,000 increase in losses on sale of foreclosed properties and a \$12,000 increase in program disbursements.

**Administrative expenses, net**

The \$739,000 (6.9%) decrease in *Administrative expenses, net* from 2017 to 2018 was primarily due to a decrease in OPEB related expenses of \$501,000, a net decrease in the expense related to the Fund’s proportionate share of the net pension liability of \$252,000, an increase of \$96,000 in various administrative reimbursements and an increase of \$128,000 in salary expenses due to vacant positions from fiscal year 2017 hired in fiscal year 2018.

The \$167,000 (1.5%) decrease in *Administrative expenses, net* from 2016 to 2017 was primarily due to a net decrease of \$118,000 in technology-related expenses, an increase of \$93,000 in legal expenses and an increase of \$106,000 in various administrative reimbursements.

**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 Fund’s 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 2016 through fiscal year 2018 as follows:

(Dollars in thousands)			
	<u>2018</u>	<u>June 30, 2017</u>	<u>2016</u>
Beginning Balance	\$ 575,325	\$ 597,007	\$ 609,095
Repayments/Prepayments	(59,425)	(65,361)	(64,561)
Foreclosures	(3,735)	(4,857)	(4,834)
Originations	53,866	48,536	66,928
Loans sold to Secondary Market	-	-	(9,621)
Ending Balance	<u>\$ 566,031</u>	<u>\$ 575,325</u>	<u>\$ 597,007</u>
% Decrease from prior year	<u>(1.6%)</u>	<u>(3.6%)</u>	

Interest rates on new single family bond loans originated in fiscal year 2018 have averaged approximately 4.50%. 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 2016 through 2018.

<u>Average Loan Interest Rate</u>	
June 30, 2016	4.66%
June 30, 2017	4.62%
June 30, 2018	4.56%

The Fund’s Bond Programs consist of 30-year fixed rate loans and no sub-prime loans. The median income of Fund borrowers is \$50,003 as of June 30, 2018. 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 2016 through 2018 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.

<u>Months Past Due</u>	<b>WV Housing Development Fund</b>			<b>WV*</b>	<b>USA*</b>
	<b>As of June 30,</b>			<b>As of</b>	
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>March 31, 2018</b>	
One	3.58%	3.94%	4.30%	3.03%	2.10%
Two	1.16%	1.11%	1.35%	0.95%	0.75%
Three	0.44%	0.46%	0.69%	1.29%	1.45%
Three +	1.44%	1.66%	2.12%	2.31%	2.61%
In foreclosure	0.29%	0.26%	0.32%	1.02%	1.16%

\*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 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 2019 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.

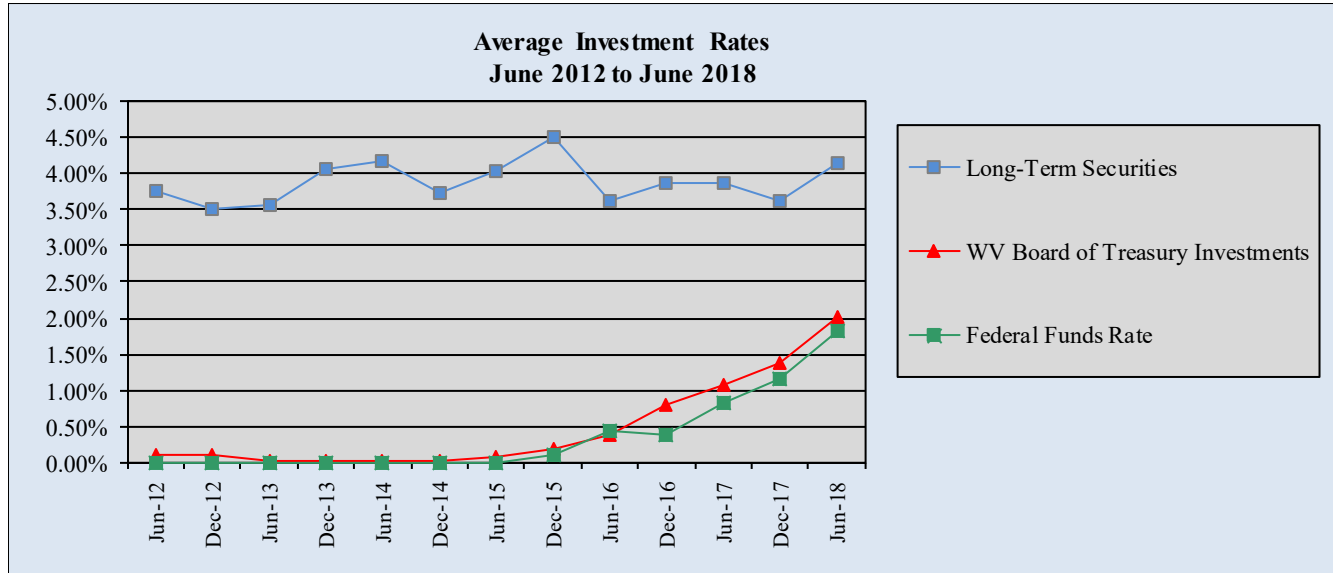
Loan proceeds and revenues of the Bond Programs, Other Loan Program, and operating funds are primarily on deposit with a bank, invested in FDIC insured certificates of deposit or collateralized certificates of deposit. All bank deposits are either FDIC insured or collateralized by permitted investments. 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 2012 through 2015. During fiscal year 2016, the Federal Reserve increased the federal funds rate ranging from 0.25% to 0.50% and continued to increase the rate three additional times during fiscal year 2017 ranging from 1.00% to 1.25%. During fiscal year 2018, the Federal Reserve increased the rate an additional

three times to the current rate ranging from 1.75% to 2.00%. 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 9.7% from 2016 to 2017, net of unrealized gains or losses, and increased 6.5% from 2017 to 2018, net of unrealized gains or losses. The increase in 2018 was primarily due to higher cash and investment balances and increases in rates throughout the year.

Below is a summary of the average investment rates from June 2012 to June 2018:



**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.

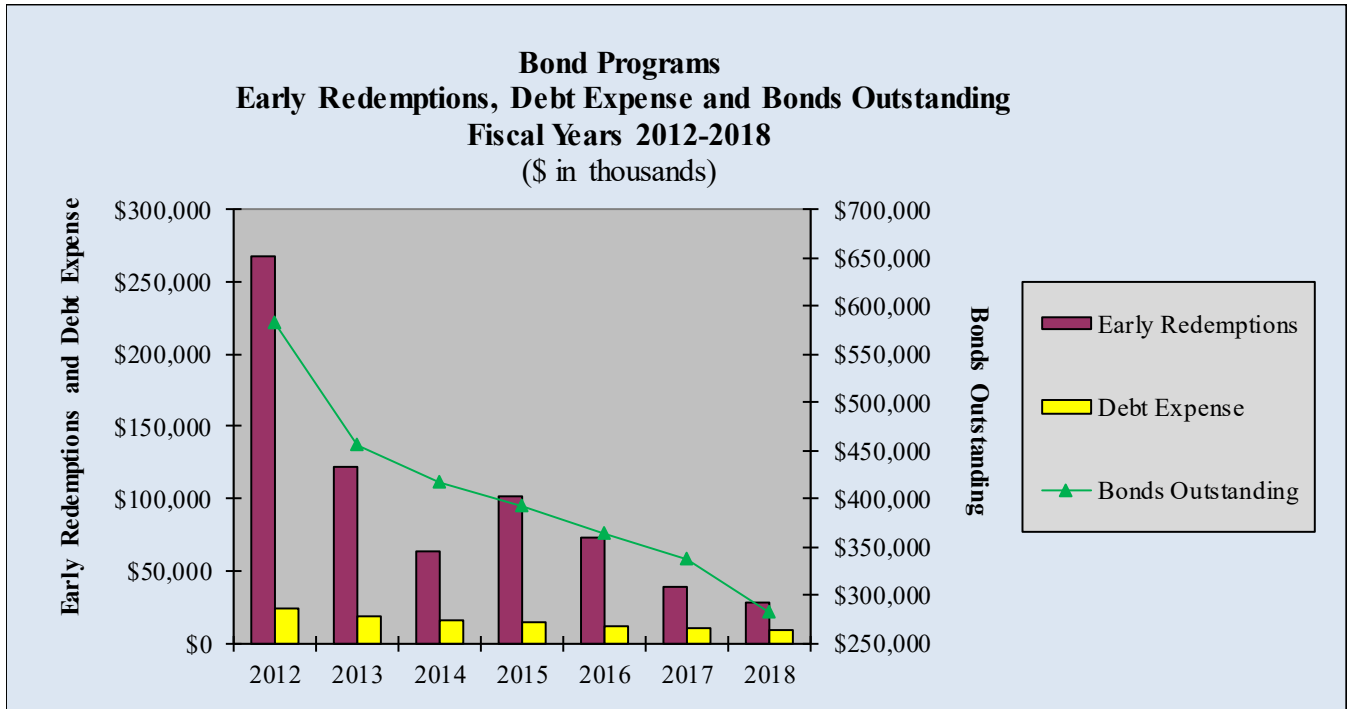
When bonds are issued from the bond volume allocation, known as “new money” bonds, certain repayments and prepayments of mortgage loans made from these proceeds may be “recycled” into additional mortgage loans for ten years. The Fund uses recycling to supplement its bond issues by using prepayments for 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 2019 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 2016, 2017 and 2018, the Fund redeemed or refunded \$72,880,000, \$38,495,000 and \$28,195,000 in bonds, respectively. In addition, 2016 and 2017 redemptions included the refunding of bonds in the amount of \$40,060,000, and \$14,505,000, respectively. There were no bonds refunded in 2018.

Debt expense was \$12,183,000, \$10,686,000 and \$9,573,000 in fiscal years 2016, 2017 and 2018, respectively. Debt expense decreased in 2017 and 2018 as compared to 2016 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 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 \$2,960,000 represents 7.64% of the Fund’s total revenues, net of pass through grant revenue, for the fiscal year ended June 30, 2018.

**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 \$193,000 (3.7%) from June 30, 2016 to June 30, 2017. From June 30, 2017 to June 30, 2018, *Net position restricted for other postemployment benefits* improved by \$11,000 (.2%) to \$5,444,000 at June 30, 2018.

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](http://www.wvhdf.com).

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

	<b>June 30,</b>	
	<u><b>2018</b></u>	<u><b>2017</b></u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents-- (Notes A and C)	\$ 21,097	\$ 21,038
Accrued interest on loans	312	266
Accounts receivable and other assets, net of allowance for losses-- (Note A)	939	1,050
Mortgage loans held for sale-- (Note A)	-	116
Restricted cash and cash equivalents-- (Notes A and C)	43,095	39,822
Restricted accrued interest on loans	2,289	2,403
Restricted accrued interest on investments	684	577
Total current assets	<u>68,416</u>	<u>65,272</u>
Noncurrent assets:		
Mortgage loans, net of allowance for losses-- (Note A)	58,106	56,505
Capital assets, net of depreciation-- (Note A)	8,538	8,663
Restricted cash and cash equivalents-- (Notes A and C)	22,430	48,708
Restricted investments-- (Notes A and C)	75,667	81,632
Restricted mortgage loans, net of allowance for losses-- (Note A)	647,309	657,174
Restricted other assets, net of allowance for losses-- (Note A)	5,207	6,314
Total noncurrent assets	<u>817,257</u>	<u>858,996</u>
Total assets	<u>885,673</u>	<u>924,268</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources related to pension and OPEB--(Notes A, F and H)	<u>1,101</u>	<u>2,070</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and other liabilities-- (Note A)	16,244	16,044
Accrued interest payable	1,464	1,795
Bonds payable-- (Note D)	27,280	35,715
Total current liabilities	<u>44,988</u>	<u>53,554</u>
Noncurrent liabilities:		
Other liabilities-- (Notes A, F and H)	69,975	70,986
Bonds & notes payable-- (Note D)	254,324	302,056
Total noncurrent liabilities	<u>324,299</u>	<u>373,042</u>
Total liabilities	<u>369,287</u>	<u>426,596</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources related to pension and OPEB--(Notes A, F and H)	<u>1,486</u>	<u>316</u>
<b>NET POSITION</b>		
Restricted for debt service	357,312	346,325
Restricted by state statute	72,410	67,020
Investment in capital assets	8,538	8,663
Unrestricted	77,741	77,418
Total net position	<u>\$ 516,001</u>	<u>\$ 499,426</u>

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)**

	<b>Year Ended June 30,</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
<b>OPERATING REVENUES</b>		
Interest on loans	\$ 29,676	\$ 31,106
Pass-through grant revenue-- (Note A)	69,164	72,124
Fee revenue-- (Note A)	6,774	6,905
Other-- (Note A)	1,439	1,416
	<u>107,053</u>	<u>111,551</u>
<b>OPERATING EXPENSES</b>		
Pass-through grant expense-- (Note A)	69,164	72,124
Loan fees expense-- (Note A)	3,676	3,538
Program expenses, net-- (Note A)	2,357	3,547
Administrative expenses, net-- (Note A)	9,946	10,685
	<u>85,143</u>	<u>89,894</u>
<b>OPERATING INCOME</b>	21,910	21,657
<b>NON-OPERATING - FINANCING AND INVESTING (EXPENSES) REVENUES</b>		
Investment earnings:		
Interest	3,395	3,188
Net decrease in the fair value of investments	(2,518)	(3,270)
Net investment earnings	877	(82)
Interest and debt expense	(9,573)	(10,686)
	<u>(8,696)</u>	<u>(10,768)</u>
<b>INCOME BEFORE SPECIAL ITEM</b>	13,214	10,889
<b>SPECIAL ITEM</b>		
Transfer of operations--(Note I)	4,469	-
<b>CHANGE IN NET POSITION</b>	<u>17,683</u>	<u>10,889</u>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>499,426</u>	<u>488,537</u>
<b>CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE <sup>(1)</sup></b>	<u>(1,108)</u>	<u>-</u>
<b>NET POSITION AT BEGINNING OF YEAR, AS RESTATED</b>	<u>498,318</u>	<u>488,537</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 516,001</u>	<u>\$ 499,426</u>

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

	<b>Year Ended June 30,</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from lending activities	\$ 110,039	\$ 109,356
Receipts from other operating activities	8,185	8,283
Receipts from escrows and advance activities <sup>(1)</sup>	73,643	86,144
Disbursements from escrows and advance activities <sup>(1)</sup>	(73,825)	(87,678)
Receipts for federal lending activities	4,347	8,149
Receipts for federal activities	63,434	63,034
Disbursements for federal activities	(63,433)	(63,016)
Purchase of mortgage loans	(74,823)	(68,691)
Purchase of mortgage loans held for sale	(38,387)	(42,078)
Sales of mortgage loans	38,503	42,290
Payments to employees for salaries and benefits	(7,092)	(7,666)
Payments to vendors	(8,053)	(8,322)
Net cash provided by operating activities	<u>32,538</u>	<u>39,805</u>
<b>CASH FLOWS USED IN NONCAPITAL FINANCING ACTIVITIES</b>		
Net proceeds from bonds and notes	250	39,755
Retirement of bonds and notes	(56,436)	(65,691)
Interest paid	(9,904)	(10,967)
Special item - transfer of operations <sup>(2)</sup>	4,114	-
Net cash used in noncapital financing activities	<u>(61,976)</u>	<u>(36,903)</u>
<b>CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of equipment and furnishings	(274)	-
Net cash used in capital and related financing activities	<u>(274)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturities of investments	33,730	44,318
Purchase of investments	(30,438)	(35,995)
Net investment earnings	3,474	3,170
Net cash provided by investing activities	<u>6,766</u>	<u>11,493</u>
Net (decrease) increase in cash and cash equivalents	(22,946)	14,395
Cash and cash equivalents at beginning of year	109,568	95,173
Cash and cash equivalents at end of year	<u>\$ 86,622</u>	<u>\$ 109,568</u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 21,097	\$ 21,038
Restricted cash and cash equivalents - current	43,095	39,822
Restricted cash and cash equivalents - noncurrent	22,430	48,708
	<u>\$ 86,622</u>	<u>\$ 109,568</u>

<sup>(1)</sup> See Note A, *Restricted cash and cash equivalents*

<sup>(2)</sup> See Note I, *Special item - transfer of operations*

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)**

	<b>Year Ended June 30,</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 21,910	\$ 21,657
Adjustments to reconcile operating income to net cash provided by operating activities:		
Pension expense	317	569
OPEB expense (credit)	(21)	-
Change in assets and liabilities:		
Accrued interest on loans	(46)	(36)
Mortgage loans held for sale	116	212
Other assets	780	(15)
Allowance for (recovery of) losses on other assets	(270)	295
Restricted accrued interest on loans	114	16
Restricted other assets	745	907
Allowance for (recovery of) losses on restricted other assets	362	(42)
Mortgage loans	(1,699)	(5,822)
Allowance for losses on mortgage loans	98	60
Restricted mortgage loans	7,236	19,049
Allowance for losses on restricted mortgage loans	3,003	973
Accounts payable	188	(1,049)
Other liabilities, Federal Programs	587	3,653
Deferred outflows of resources - pension and OPEB contributions	(654)	(622)
Other liabilities, OPEB	(228)	-
Net cash provided by operating activities	<u>\$ 32,538</u>	<u>\$ 39,805</u>
<b>Noncash investing and financing activities:</b>		
Decrease in fair value of investments	\$ (2,843)	\$ (3,647)
Net amortization of premiums/discounts on investments	170	97
Transfer of operations--(Note I)	355	-

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

	<b>June 30,</b>	
	<u><b>2018</b></u>	<u><b>2017</b></u>
<b>ASSETS</b>		
Restricted cash and cash equivalents	\$ 235	\$ 984
Restricted accrued interest on investments	23	7
Restricted investments:		
Federal agency securities		700
U.S. Treasury securities	2,983	1,497
Certificates of deposit	2,218	2,245
Total restricted investments	<u>5,201</u>	<u>4,442</u>
Total restricted assets	<u>5,459</u>	<u>5,433</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and other liabilities	<u>15</u>	<u>-</u>
Total current liabilities	<u>15</u>	<u>-</u>
Total liabilities	<u>15</u>	<u>-</u>
<b>NET POSITION RESTRICTED FOR OTHER          POSTEMPLOYMENT BENEFITS</b>	<u>\$ 5,444</u>	<u>\$ 5,433</u>

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)**

	<b>Year Ended June 30,</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
<b>ADDITIONS</b>		
Contributions - Employer	\$ 228	\$ 405
Investment income:		
Interest	85	63
Net decrease in fair value of investments	(39)	(41)
Net investment income	<u>46</u>	<u>22</u>
Total additions	274	427
<b>DEDUCTIONS</b>		
Benefits	228	218
Administrative expenses	35	16
Total deductions	<u>263</u>	<u>234</u>
<b>NET INCREASE IN NET POSITION</b>	11	193
<b>NET POSITION RESTRICTED FOR OTHER POSTEMPLOYMENT BENEFITS</b>		
<b>BEGINNING OF YEAR</b>	<u>5,433</u>	<u>5,240</u>
<b>END OF YEAR</b>	<u>\$ 5,444</u>	<u>\$ 5,433</u>

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

**WEST VIRGINIA HOUSING DEVELOPMENT FUND**  
**NOTES TO FINANCIAL STATEMENTS, AN INTEGRAL PART OF THE FINANCIAL STATEMENTS**  
**June 30, 2018**

**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, Affordable Housing Fund, 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 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 Affordable Housing Fund was created by the State Legislature in 2018 through the transfer of operations of the West Virginia Affordable Housing Trust Fund (WVAHTF) to the Fund effective June 8, 2018. The Legislation maintains those funds for its original purpose in support of much-needed affordable Housing. The Affordable Housing Fund's purpose is to provide funding for both technical assistance and housing assistance to non-profits and government entities to encourage stronger partnerships, collaboration and greater involvement of local communities in meeting housing needs in the State. The Affordable Housing Fund receives a fee of twenty dollars on the transfer of real property and on the sale of factory-built homes by licensed dealers and is restricted by State statute. The transfer fees are required to be set aside in a special purpose account for the sole purpose of continuing the activities of the WVAHTF for the sole benefit of governments, 501(c)(3) non-profits and public housing authorities.

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), National Housing Trust Fund (NHTF), 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 accounting principles generally accepted in the United States and to 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, 2017, the Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The Fund determined that it was not practical to restate all periods presented and has recorded the cumulative effect of implementing this change as a \$1,108,000 decrease to beginning net position as of July 1, 2017, which is the net OPEB liability of \$1,179,000 less deferred outflows of resources related to OPEB contributions of \$71,000 as of that date. The Fund further determined that it was not practical to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to OPEB as of July 1, 2017 and these amounts are not reported.

Restatements – Certain amounts in the 2017 financial statements have been restated due to implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The early implementation in the 2017 financial statements was recorded and presented as effective July 1, 2016 and it should have been implemented in the 2018 financial statements and effective July 1, 2017. The restatements to fiscal year 2017, which are not material, are: a \$174,000 decrease in *Deferred outflows related to pension and OPEB*, a \$146,000 decrease in *Other liabilities*, a \$190,000 increase in *Administrative expenses*, a \$162,000 increase in *Net position* at beginning of year, and a \$28,000 decrease in *Net position* at end of year.

Estimates – Certain estimates and assumptions are required by management in the preparation of the financial statements in accordance with accounting principles generally accepted in the United States (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 significantly 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, 2018			June 30, 2017		
	Balance	Allowance	Net	Balance	Allowance	Net
Accounts receivable and other Assets:						
Accounts receivable	\$ 847	\$ (7)	\$ 840	\$ 977	\$ (9)	\$ 968
Land	117	(58)	59	117	(35)	82
Foreclosed property	352	(312)	40	603	(603)	-
Total	<u>\$ 1,316</u>	<u>\$ (377)</u>	<u>\$ 939</u>	<u>\$ 1,697</u>	<u>\$ (647)</u>	<u>\$ 1,050</u>

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 \$15,441,000 at June 30, 2018 and \$13,870,000 at June 30, 2017. 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, 2018			June 30, 2017		
	Balance	Allowance	Net	Balance	Allowance	Net
Unrestricted Mortgage Loans:						
General Account	\$ 3,182	\$ (1,997)	\$ 1,185	\$ 3,475	\$ (2,012)	\$ 1,463
Other Loan Programs	70,599	(13,678)	56,921	68,608	(13,566)	55,042
Total	<u>\$ 73,781</u>	<u>\$ (15,675)</u>	<u>\$ 58,106</u>	<u>\$ 72,083</u>	<u>\$ (15,578)</u>	<u>\$ 56,505</u>

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, 2017	Additions	Deletions	June 30, 2018
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	20	-	7,729
Equipment and furnishings	1,260	48	-	1,308
Computer software	531	207	-	738
Total capital assets, being depreciated	9,500	275	-	9,775
Less accumulated depreciation for:				
Buildings	(1,147)	(193)	-	(1,340)
Equipment and furnishings	(1,185)	(45)	-	(1,230)
Computer software	(315)	(162)	-	(477)
Total accumulated depreciation	(2,647)	(400)	-	(3,047)
Total capital assets being depreciated, net	6,853	(125)	-	6,728
Total capital assets, net	<u>\$ 8,663</u>	<u>\$ (125)</u>	<u>\$ -</u>	<u>\$ 8,538</u>



(Dollars in thousands)	<b>June 30,</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30,</b>
	<b>2016</b>			<b>2017</b>
Capital assets, not being depreciated:				
Land	\$ 1,810	\$ -	\$ -	\$ 1,810
Total capital assets, not being depreciated	<u>1,810</u>	<u>-</u>	<u>-</u>	<u>1,810</u>
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	<u>9,500</u>	<u>-</u>	<u>-</u>	<u>9,500</u>
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	<u>(2,278)</u>	<u>(369)</u>	<u>-</u>	<u>(2,647)</u>
Total capital assets being depreciated, net	<u>7,222</u>	<u>(369)</u>	<u>-</u>	<u>6,853</u>
Total capital assets, net	<u>\$ 9,032</u>	<u>\$ (369)</u>	<u>\$ -</u>	<u>\$ 8,663</u>

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, Affordable Housing Fund 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)	<b>June 30, 2018</b>			<b>June 30, 2017</b>		
	<b>Balance</b>	<b>Allowance</b>	<b>Net</b>	<b>Balance</b>	<b>Allowance</b>	<b>Net</b>
Restricted Mortgage Loans:						
General Account	\$ 486	\$ (484)	\$ 2	\$ 464	\$ (462)	\$ 2
Other Loan Programs	647	(246)	401	698	(265)	433
Land Development	3,384	(1,629)	1,755	3,172	(1,608)	1,564
Affordable Housing Fund	2,008	(1,629)	379	-	-	-
Bond Insurance Account	14,457	(617)	13,840	15,143	(649)	14,494
Bond Programs	575,748	(9,717)	566,031	585,445	(10,120)	575,325
Federal Programs	149,488	(84,587)	64,901	148,158	(82,802)	65,356
Total	<u>\$ 746,218</u>	<u>\$ (98,909)</u>	<u>\$ 647,309</u>	<u>\$ 753,080</u>	<u>\$ (95,906)</u>	<u>\$ 657,174</u>

Federal Programs include HOME and NHTF, which are 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 and NHTF 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, NHTF, TCAP and TCEP projects are recorded as restricted mortgage loans and the

TCAP, TCEP and nonprofit HOME and NHTF 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, 2018			June 30, 2017		
	Balance	Allowance	Net	Balance	Allowance	Net
Restricted other assets:						
Accounts receivable	\$ 129	\$ -	\$ 129	\$ 34	\$ -	\$ 34
Land	2,936	(2,049)	887	2,936	(2,049)	887
Foreclosed property	6,571	(2,380)	4,191	7,411	(2,018)	5,393
Total	<u>\$ 9,636</u>	<u>\$ (4,429)</u>	<u>\$ 5,207</u>	<u>\$ 10,381</u>	<u>\$ (4,067)</u>	<u>\$ 6,314</u>

*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 – Other Postemployment Healthcare Benefits*.

*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 and NHTF programs, the Fund’s net pension liability as explained in *Note F – Retirement Plan* and the Fund’s net OPEB liability (asset) as explained in *Note H – Other Postemployment Healthcare Benefits*.

*Deferred inflows of resources related to pension and OPEB* 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* and *Note H – Other Postemployment Healthcare Benefits*.

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 Affordable Housing Fund, 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, NHTF 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 and deferred document penalty fees.

The Fund services all loans in its portfolio as well as loans on behalf of others totaling approximately \$1,171,000,000 and \$1,185,000,000 at June 30, 2018 and 2017, respectively. Of this total, the portfolio serviced by the Fund on behalf of others approximated \$349,719,000 and \$358,785,000 at June 30, 2018 and 2017, 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 Affordable Housing Fund, Land Development Program and the Bond Insurance Account are 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, 2018, the Fund has committed \$38,850,000 from Other Loan Programs for various loans or projects and \$3,084,000 from Other Loan Programs for the purchase of secondary market loans. In addition, the Fund has committed to sell loans to FNMA of \$2,845,000 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 2019 administrative budget of \$12,351,600 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, 2018			June 30, 2017	
	Weighted Avg Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
<b>Reported at cost</b>					
Demand Deposits, Money Market Funds	1 day	\$ 50,056	\$ 50,056	\$ 43,656	\$ 43,656
Mortgages held for investment purposes	21.85 years	15,757	15,757	16,712	16,712
Collateralized CDs	292 days	2,000	2,000	4,000	4,000
FDIC Insured CDs	1.07 years	10,700	10,700	6,800	6,800
WVBOTI deposits	1 day	25,639	25,639	22,550	22,550
Total		104,152	104,152	93,718	93,718
<b>Reported at estimated fair value</b>					
Fannie Mae MBS pools	12.69 years	1,083	1,168	1,309	1,446
Federal agency securities	5.90 years	55,401	61,587	92,655	101,098
U.S. Treasury securities	2.87 years	10,207	11,139	10,182	11,650
Total		66,691	73,894	104,146	114,194
Total investments, including cash equivalents		\$ 170,843	\$ 178,046	\$ 197,864	\$ 207,912

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, 2018			June 30, 2017	
	Weighted Avg Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
<b>Reported at cost</b>					
Money Market Funds	1 day	\$ 235	\$ 235	\$ 984	\$ 984
Total		235	235	984	984
<b>Reported at estimated fair value</b>					
Federal agency securities		-	-	700	700
U.S. Treasury securities	296 days	2,993	2,983	1,497	1,497
Certificates of deposit	2.29 years	2,248	2,218	2,246	2,245
Total		5,241	5,201	4,443	4,442
Total investments, including cash equivalents		\$ 5,476	\$ 5,436	\$ 5,427	\$ 5,426

*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, 2018
Reserve Funds	30 Years	7 years
Bond Insurance Funds	15 Years	8 years
Other Funds	4 years	5 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, 2018, the Fund's investments in the WV BOTI 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 Atlanta, 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.

<b>As of June 30, 2018</b>			
(Dollars in thousands)			
	<b>Maximum of Portfolio</b>	<b>Invested Funds</b>	<b>% of Total Investment</b>
Direct Federal Obligations	100%	\$ 10,206	7%
Federal Agency Obligations	90%	56,485	36%
Federally Guaranteed Obligations	100%	-	0%
Demand Deposits, Time Deposits	30%	22,215	15%
Demand Deposit Marketplace, FDIC Insured	\$17,000	-	0%
Collateralized CDs	\$75,000	2,000	1%
CDARS FDIC Insured CDs	\$50,000	10,700	7%
West Virginia Obligations	15%	-	0%
ICS FDIC Insured Money Market Funds	\$75,000	15,419	10%
Mortgages Held for Investment Purposes	30%	15,757	10%
Money Market Funds	25%	274	0%
WVBOTI deposits	\$40,000	22,346	14%
<b>TOTAL</b>		<b>\$ 155,402</b>	<b>100%</b>
Funds Held for Others *	N/A	15,441	
<b>TOTAL INVESTED FUNDS</b>		<b>\$ 170,843</b>	

\* 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 \$50,056,000 and \$43,656,000 as of June 30, 2018 and 2017, respectively. Bank balances approximated \$50,864,000 and \$44,576,000 as of June 30, 2018 and 2017, respectively, of which approximately \$31,552,000 and \$29,540,000 was covered by federal depository insurance as of June 30, 2018 and 2017, respectively, and \$19,038,000 and \$14,523,000 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, 2018 and 2017, respectively. Also included in the bank balances above are trust account money market fund balances of \$274,000 and \$513,000 as of June 30, 2018 and 2017, respectively, which are not subject to custodial credit risk.

The fiduciary fund cash had a carrying value of \$235,000 and \$984,000 as of June 30, 2018 and 2017, respectively. Bank balances approximated \$235,000 and \$985,000 as of June 30, 2018 and 2017, 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,	
	2018	2017
<b><u>Level 1 inputs</u></b>		
Federal agency securities	\$ 61,587	\$ 101,098
U.S. Treasury securities	11,139	11,650
Total	72,726	112,748
<b><u>Level 2 inputs</u></b>		
Fannie Mae MBS pools	1,168	1,446
Total	1,168	1,446
Total investments, reported at estimated fair value	<u>\$ 73,894</u>	<u>\$ 114,194</u>

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

(Dollars in thousands)	June 30,	
	2018	2017
<b><u>Level 1 inputs</u></b>		
Federal agency securities	\$ -	\$ 700
U.S. Treasury securities	2,983	1,497
Certificates of deposit	2,218	2,245
Total investments, reported at estimated fair value	<u>\$ 5,201</u>	<u>\$ 4,442</u>

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,	
	2018	2017
Cash and cash equivalents	\$ 21,097	\$ 21,038
Current restricted cash and cash equivalents	43,095	39,822
Noncurrent restricted cash and cash equivalents	22,430	48,708
Restricted investments	75,667	81,632
Plus mortgages held for investment purposes	15,757	16,712
Total Investments and cash equivalents	<u>\$ 178,046</u>	<u>\$ 207,912</u>
Less unrealized gains	7,203	10,048
Total Invested Funds	<u>\$ 170,843</u>	<u>\$ 197,864</u>

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

(Dollars in thousands)	June 30,	
	2018	2017
Restricted cash and cash equivalents	\$ 235	\$ 984
Restricted investments	5,201	4,442
Total Investments and cash equivalents	<u>\$ 5,436</u>	<u>\$ 5,426</u>
Plus unrealized losses	40	1
Total Invested Funds	<u>\$ 5,476</u>	<u>\$ 5,427</u>

The enterprise fund has an unrealized gain on investments of \$7,203,000 and \$10,048,000 as of June 30, 2018 and 2017, respectively. This represents a decrease in unrealized gain on investments of \$2,845,000 and \$3,646,000 from June 30, 2017 and 2016, respectively. In connection with the unrealized gain, \$746,000 and \$1,069,000 is recorded as a liability for related investment earnings as of June 30, 2018 and 2017, 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, 2018 and 2017 and to properly reflect the rebate liability, a \$2,518,000 decrease and \$3,270,000 decrease was recorded in Net investment earnings in the Statements of Revenues, Expenses, and Changes in Fund Net Position for year ended June 30, 2018 and 2017, respectively.

The fiduciary fund has an unrealized loss on investments of \$40,000 and \$1,000 as of June 30, 2018 and June 30, 2017, respectively. This represents a decrease in unrealized gain on investments of \$39,000 and \$41,000 from the June 30, 2017 and 2016, respectively. To adjust the fair value of investments to reflect this unrealized gain at June 30, 2018 and 2017 a \$39,000 decrease and a \$41,000 decrease was recorded in Net investment income in the Statements Changes in Fiduciary Net Position for year ended June 30, 2018 and 2017, 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 70.95% 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, 2018 and 2017 was \$66,340,000 and \$62,153,000, respectively. In addition, 2017 included the refunding of bonds in the amount of \$14,505,000. 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 2018 and 2017 were \$91,698,000 and \$99,904,000, 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. An allowance for loan losses has been established based on management's review of potential problem loans. At June 30, 2018, Bonds & notes payable - noncurrent includes a \$1,080,000 note payable, net of a \$206,000 loss allowance, 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, 2018 and 2017, the Fund redeemed or refunded \$28,195,000 and \$38,495,000 of bonds, respectively, at redemption prices that approximated their carrying value.

The following charts summarize bond and note activity from 2017 to 2018 and 2016 to 2017, respectively.

(Dollars in thousands)

	<b>Bonds Payable Current</b>	<b>Bonds &amp; Notes Payable Noncurrent</b>	<b>Bonds &amp; Notes Payable Total</b>
Outstanding Balance, June 30, 2017	\$ 35,715	\$ 302,056	\$ 337,771
Debt Issued	-	250	250
Debt Paid	(28,095)	(146)	(28,241)
Early Redemptions/Refundings	(7,970)	(20,225)	(28,195)
Note Payable allowance for losses	-	19	19
Reclassification from noncurrent to current	27,630	(27,630)	-
Outstanding Balance, June 30, 2018	<u>\$ 27,280</u>	<u>\$ 254,324</u>	<u>\$ 281,604</u>

(Dollars in thousands)

	<b>Bonds Payable Current</b>	<b>Bonds &amp; Notes Payable Noncurrent</b>	<b>Bonds &amp; Notes Payable Total</b>
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	<u>\$ 35,715</u>	<u>\$ 302,056</u>	<u>\$ 337,771</u>

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:

	<b>Original Amount Authorized</b>	<b>Outstanding at June 30,</b>	
		<b>2018</b>	<b>2017</b>
(Dollars in thousands)			
<b><u>HOUSING FINANCE BOND PROGRAM</u></b>			
2010 Series A,B,C	\$ 130,870	\$ -	\$ 15,825
2011 Series A (2.909% to 3.622%), due 2018-2021	50,000	18,970	24,040
2013 Series A (1.55% to 3.20%) due 2018-2028	21,000	14,925	16,160
2013 Series B,C (2.45% to 4.35%) due 2018-2026	47,500	15,985	23,355
2014 Series A,B (1.70% to 4.10%), due 2018-2035	48,865	34,770	38,415
2015 Series A,B (1.50% to 3.80%), due 2018-2034	50,660	36,330	41,400
2015 Series C,D (1.50% to 4.10%), due 2018-2039	70,060	57,440	63,580
2017 Series A,B (1.25% to 4.125%), due 2018-2045	39,505	37,700	39,505
<b><u>GENERAL NEW ISSUE BOND PROGRAM</u></b>			
2011 A (2.32% to 3.80%), due 2018-2041	51,850	27,730	32,500
2012 A (1.60% to 3.35%), due 2018-2041	66,770	36,880	42,240
Total bonds payable		<u>280,730</u>	<u>337,020</u>
<b><u>OTHER LOAN PROGRAMS</u></b>			
Notes Payable (0.00%), net of allowance for losses <sup>(1)</sup>	2,000	874	751
Total bonds & notes payable		<u>\$ 281,604</u>	<u>\$ 337,771</u>

<sup>(1)</sup> Payments are due to the DEP as the Fund receives payments from OSLP loan recipients.

Total bonds payable does not include \$7,095,000 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, 2018 and thereafter to maturity.

<b>Bonds</b>			
<b>Maturing During</b>		<b>Principal</b>	<b>Interest</b>
<b>Year Ending June 30:</b>			<b>Total</b>
(Dollars in thousands)			
2019	(1)	\$ 27,280	\$ 8,555
2020		23,475	7,988
2021		23,405	7,386
2022		20,390	6,724
2023		16,735	6,173
2024-2028		64,030	23,947
2029-2033		55,540	13,975
2034-2038		36,105	5,303
2039-2043		12,375	1,150
2044-2046		1,395	77
		<u>\$ 280,730</u>	<u>\$ 81,278</u>
			<u>\$ 362,008</u>

<sup>(1)</sup> Includes the anticipated redemptions of General New Issue Bond Program Bonds in the amount of \$1,455,000 and Housing Finance Bonds in the amount of \$2,440,000.

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. The Housing Finance Bond Program established liabilities for excess rebateable investment earnings in the amount of \$353,000 as of June 30, 2018; however, there were no excess rebateable investment earnings as of June 30, 2017. These amounts are included in Accounts payable and other liabilities and represent actual earnings in excess of those permitted by the Code. These amounts are in addition to the \$746,000 and \$1,069,000 established as a liability at June 30, 2018 and 2017, respectively, for the excess of the fair value of investments over amortized costs 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 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, based upon the advice of 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, 2018, 41.65% of the Fund's single family Bond Program loans were VA, USDA Rural Development, or FHA guaranteed. Another 29.30% 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](http://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. A member may retire with the pension reduced actuarially if the member is at least age 55 and at least ten years of contributory service, or at any age with thirty years of contributory service. Employees hired on or after July 1, 2015 may retire with the pension reduced actuarially if the member is between ages 60 and 62 with at least ten years of contributory service, between ages 57 and 62 with at least twenty years of contributory service, or between ages 55 and 62 with at least thirty years of contributory service. 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 with at least ten years of contributory service, or age 63 with at least twenty years of contributory service.

**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 11.0%, 12.0% and 13.5% for the years ended June 30, 2018, 2017 and 2016, 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 \$588,000, \$622,000, and \$714,000 for the fiscal years ended June 30, 2018, 2017, and 2016, respectively.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At June 30, 2018 and June 30, 2017 respectively, the Fund reported a liability of \$1,648,000 and \$3,526,000 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2018 was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, rolled forward to the measurement date of June 30, 2017. 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, 2017. At June 30, 2017 and June 30, 2016, the Fund's proportionate share was 0.38% for both years.

For the years ended June 30, 2018 and June 30, 2017, respectively, the Fund recognized pension expense of \$317,000 and \$569,000. At June 30, 2018 and June 30, 2017, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(Dollars in thousands)	June 30, 2018	
	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 401
Difference between expected and actual experience	147	4
Difference in assumptions	-	85
Changes in proportion and differences between Fund contributions and proportionate share of contributions	11	126
Fund contributions made subsequent to the measurement date	588	-
	<u>\$ 746</u>	<u>\$ 616</u>

(Dollars in thousands)	June 30, 2017	
	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflows of Resources</u>
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	-
	<u>\$ 2,070</u>	<u>\$ 316</u>

Deferred outflows of resources related to pensions of \$588,000 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, 2019. 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
2019	\$ (199)
2020	104
2021	(18)
2022	(345)

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

	2017	2016
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%	3.00%
Discount rate	7.50%	7.50%
Mortality rates	Active - 100% of RP-2000 Non-Annuitant, Scale AA fully generational Retired healthy males - 110% of RP-2000 Healthy Annuitant, Scale AA fully generational Retired healthy females - 101% of RP-2000 Healthy 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	Active - 100% of RP-2000 Non-Annuitant, Scale AA fully generational Retired healthy males - 110% of RP-2000 Healthy Annuitant, Scale AA fully generational Retired healthy females - 101% of RP-2000 Healthy 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
Withdrawal rates		
State	1.75 - 35.1%	1.75 - 35.1%
Non-state	2 - 35.88%	2 - 35.88%
Disability rates	.007 - .675%	.007 - .675%
Retirement rates	12% - 100%	12% - 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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>	<b>Weighted Average Expected Real Rate of Return</b>
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%
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:

<b>Net Pension Liability (Asset)</b>		
<b>Current</b>		
<b>1% Decrease</b>	<b>Discount Rate</b>	<b>1% Increase</b>
<b>6.50%</b>	<b>7.50%</b>	<b>8.50%</b>
\$ 4,562	\$ 1,648	\$ (816)

#### **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		
	2018	2017	2016
Balance at beginning of fiscal year	\$ 414	\$ 392	\$ 366
Increase in annual leave	21	22	26
Balance at end of fiscal year	<u>\$ 435</u>	<u>\$ 414</u>	<u>\$ 392</u>

## NOTE H – OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS

The Fund has participants in two separate Other Postemployment Healthcare Benefit Plans – the Fund’s Welfare Benefit Plan and the West Virginia Public Employees Insurance Agency Plan.

### Welfare Benefit Plan (the 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, 2018, the following employees were covered by the benefit terms:

Welfare Benefit Plan Covered Employees	
Inactive employees or beneficiaries currently receiving benefit payments	11
Inactive employees entitled to but not yet receiving benefit payments	-
Active plan members	<u>100</u>
Total	<u><u>111</u></u>

**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 \$228,000, and \$405,000 for the fiscal years ended June 30, 2018 and 2017, 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, 2018, the annual money-weighted rate of return on investments, net of investment expense, was .78 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 (asset) of the Fund at June 30, 2018, were as follows:

<b>Welfare Benefit Plan</b>	
(Dollars in thousands)	
Total OPEB Liability	\$ 4,872
Plan Fiduciary Net Position	5,444
Net OPEB Liability (Asset)	<u>\$ (572)</u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability (Asset)	111.74%

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

<b>Welfare Benefit Plan</b>	
Valuation Date	1/1/2018 Rolled forward to 6/30/2018
Actuarial Method	Entry Age Normal
Amortization Method	Level Percentage of Pay Closed
Remaining Amortization Period	19 years as of 1/1/2018
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-2014 Mortality Table, adjusted to 2006 with Scale MP-2014, and projected fully generationally with Scale MP-2017.

An actuarial experience study was not completed. Actuarial assumptions for disability, termination, retirement, and dependent age were based on the PERS actuarial valuation as of July 1, 2016.

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:



<b>Welfare Benefit Plan</b>		
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and cash equivalents	10.0%	1.50%
U.S. Government Obligations	90.0%	2.25%
Total	100.0%	

**Discount rate.** The discount rate as of June 30, 2018 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, 2017 and in the January 1, 2018 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 29, 2017 was 3.58% and the municipal bond rate at June 28, 2017 was 3.87%. However, the depletion test as of the most recent actuarial valuation as of January 1, 2018, 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, 2018 using the assumptions detailed in the 2018 actuarial valuation report. An Actuarially 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, 2018, and then assuming that two times the ADC is contributed for the next five years. 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, 2018, the Fund reported a liability of (\$572,143) for its Net OPEB Liability (Asset). The Total OPEB Liability (TOL) at the beginning of the current measurement year is measured as of a valuation date of January 1, 2018 and rolled forward to June 30, 2018. The TOL at the end of the measurement year, June 30, 2018, is measured as of a valuation date of January 1, 2018 and projected to June 30, 2018. Valuations will be completed every other year.

<b>Welfare Benefit Plan</b> (Dollars in thousands)	<b>Increase (Decrease)</b>		
	<b>Total OPEB Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net OPEB Liability (Asset)</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a) - (b)</b>
<b>Balances at 6/30/2017</b>	\$ 5,579	\$ 5,433	\$ 146
<b>Changes for the year:</b>			
Service cost	147	-	147
Interest	234	-	234
Changes of benefits	-	-	-
Differences between expected and actual experience	(200)	-	(200)
Changes of assumptions	(660)	-	(660)
Contributions - employer	-	228	(228)
Contributions - member	-	-	-
Net investment income	-	46	(46)
Benefit payments	(228)	(228)	-
Administrative expense	-	(35)	35
<b>Net changes</b>	<b>(707)</b>	<b>11</b>	<b>(718)</b>
<b>Balances at 6/30/2018</b>	<b>\$ 4,872</b>	<b>\$ 5,444</b>	<b>\$ (572)</b>

**Sensitivity of the net OPEB liability to changes in the discount rate.** The following presents the net OPEB liability (asset) of the Fund, as well as what the Fund's net OPEB liability (asset) 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:

Welfare Benefit Plan (Dollars in thousands)	1%	Discount	1%
	Decrease	Rate	Increase
	3.50%	4.50%	5.50%
Total OPEB Liability	\$ 5,326	\$ 4,872	\$ 4,476
Plan Fiduciary Net Position	5,444	5,444	5,444
Net OPEB Liability (Asset)	<u>\$ (118)</u>	<u>\$ (572)</u>	<u>\$ (968)</u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	102.20%	111.70%	121.60%

**Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.** The following presents the net OPEB liability (asset) of the Fund, as well as what the Fund's net OPEB liability (asset) 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:

Welfare Benefit Plan (Dollars in thousands)	Trend	Baseline	Trend
	Minus 1%	Trends	Plus 1%
Total OPEB Liability	\$ 4,398	\$ 4,872	\$ 5,425
Plan Fiduciary Net Position	5,444	5,444	5,444
Net OPEB Liability (Asset)	<u>\$ (1,046)</u>	<u>\$ (572)</u>	<u>\$ (19)</u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	123.80%	111.70%	100.40%

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

For the year ended June 30, 2018, the Fund recognized OPEB expense of \$111,305. At June 30, 2018, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Welfare Benefit Plan (Dollars in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 167
Changes in assumptions	-	550
Net difference between projected and actual earnings on OPEB plan investments	289	-
Total	<u>\$ 289</u>	<u>\$ 717</u>

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

<b>Welfare Benefit Plan</b>	
(Dollars in thousands)	
<b>Year Ended</b>	<b>OPEB</b>
<b>June 30:</b>	<b>Expense</b>
2019	\$ (60)
2020	(60)
2021	(60)
2022	(104)
Thereafter	(144)

### **West Virginia Public Employees Insurance Agency Plan (the PEIA Plan)**

#### **Plan Description**

**Plan administration.** The PEIA Plan is a cost-sharing, multiple-employer, defined other postemployment benefit plan administered by a combination of the West Virginia Public Employees Insurance Agency (PEIA) and the West Virginia Retiree Health Benefit Trust Fund (RHBT), a fiduciary fund of the State of West Virginia. The PEIA Plan covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code Section 5-16D-2 (the Code). The financial activities of the PEIA Plan are accounted for in the RHBT and PEIA issues a financial report of the RHBT that can be obtained at [www.peia.wv.gov](http://www.peia.wv.gov) or by writing to the West Virginia Public Employees Insurance Agency, 601 571h Street, SE Suite 2, Charleston, WV 25304.

**Benefits provided.** The PEIA plan provides certain healthcare insurance benefits for retired Fund employees and their eligible dependents, provided they meet the minimum eligibility requirements of PEIA and PERS. Fund employees must also meet the Fund’s requirements for retirement to be eligible for coverage in the PEIA Plan and if the Fund retiree is eligible for the Fund’s healthcare coverage, that coverage is exhausted first before they can enroll in the PEIA Plan. Management of PEIA and RHBT, with approval of the PEIA Finance Board, establish and amend benefit provisions to the PEIA Plan.

**Employees covered by benefit terms.** A limited number of Fund retirees are eligible to participate in the PEIA Plan. Prior to July 1990, the Fund was a participating agency in the PEIA Plan and all employees were eligible to participate in the PEIA Plan. In July 1990, the Fund became self-insured and was no longer a participating agency in the PEIA Plan. All staff at that time were transferred from the PEIA Plan to the Fund’s self-insured plan. In 1996, WV Code §5-16-22 was amended to allow a non-participating state agency’s employee, who were insured under PEIA for five or more years and who have ten or more years of service as of July 1, 2008, to enroll in PEIA once they retire. The Fund has 8 retirees and 6 retirees’ spouses currently enrolled or eligible for coverage in the PEIA Plan. The Fund has 3 current employees that are eligible for coverage in the PEIA Plan upon retirement. The Plan is a closed plan to new entrants and as such, there will be no additional employees eligible for the PEIA Plan.

**Contributions.** West Virginia Code section 5-16D-6 assigns to the PEIA Finance Board the authority to establish and amend contribution requirements of the plan members and the participating employers. Participating employers are required by statute to contribute at a rate assessed each year by the RHBT. Employer contributions represent what the employer was billed during the respective year for their portion of the pay as you go premiums, commonly referred to as paygo, retiree leave conversion billings, and other matters, including billing adjustments. The Fund’s contributions to the PEIA plan were \$66,000 for the year ended June 30, 2018.

Members retired before July 1, 1997, pay retiree healthcare contributions at the highest sponsor subsidized rate, regardless of their actual years of service. Members retired between July 1, 1997 and June 30, 2010, pay a subsidized rate depending on the member's years of service. Members hired on or after July 1, 2010, pay retiree healthcare contributions with no sponsor provided implicit or explicit subsidy.

Retiree leave conversion contributions from the employer depend on the retiree's date of hire and years of service at retirement as described below;

- Members hired before July 1, 1988, may convert accrued sick or leave days into 100% of the required retiree healthcare contribution.
- Members hired from July 1, 1988, to June 30, 2001, may convert accrued sick or leave days into 50% of the required retiree healthcare contribution.

The conversion rate is two days of unused sick and annual leave days per month for single healthcare coverage and three days of unused sick and annual leave days per month for family healthcare coverage.

**Contributions by Nonemployer Contributing Entities in Special Funding Situations.** The State of West Virginia is a nonemployer contributing entity that provides funding through SB 419, effective July 1, 2012, amended by West Virginia Code §11-21-96. The State provides a supplemental pre-funding source dedicating \$30 million annually to the RHBT Fund from annual collections of the Personal Income Tax Fund and dedicated for payment of the unfunded liability of the RHBT. The \$30 million transferred pursuant to this Code shall be transferred until the Governor certifies to the Legislature that an independent actuarial study has determined that the unfunded liability of RHBT has been provided for in its entirety or July 1, 2037, whichever date is later. This funding is to the advantage of all RHBT contributing employers.

The State is a nonemployer contributing entity that provides funding through West Virginia State Code §11B-2-32. The Financial Stability Fund is a plan to transfer an annual amount of \$5 million to the RHBT from special revenue funds to be used to lower retiree premiums, to help reduce benefit cuts, to help reduce premium increases or any combination thereof. The \$5 million transferred pursuant to this Code shall be transferred annually into the RHBT through June 30, 2020. This funding is to the advantage of all RHBT contributing employers.

The State is a nonemployer contributing entity that provides funding through SB 469 which was passed February 10, 2012, granting OPEB liability relief to the 55 County Boards of Education effective July 1, 2012. The public school support plan (PSSP) is a basic foundation allowance program that provides funding to the local school boards for "any amount of the employer's annual required contribution allocated and billed to the county boards for employees who are employed as professional employees, employees who are employed as service personnel and employees who are employed as professional student support personnel", within the limits authorized by the State Code. This special funding under the school aid formula subsidizes employer contributions of the county boards of education.

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

At June 30, 2018, the Fund reported a liability for its proportionate share of the PEIA Plan's net OPEB liability that reflected a reduction for State OPEB support provided to the Fund. The amount recognized by the Fund as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the Fund was as follows:

<b>PEIA Plan</b>	
(Dollars in thousands)	
Fund proportionate share of the net OPEB liability	\$ 851
State's special funding proportionate share of the net OPEB liability associated with the Fund	175
Total portion of the net OPEB liability associated with the Fund	<u>\$ 1,026</u>

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The Fund's proportion of the net OPEB liability was based on its proportionate share of employer and non-employer contributions to the OPEB Plan for the fiscal year ended on the measurement date. At June 30, 2017, the Fund's proportion was .034607 percent, which is a decrease of .0069803 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Fund recognized OPEB expense of \$95,981 and for support provided by the State under special funding situations revenue of \$53,658. At June 30, 2018, the Fund reported deferred outflows of resources and deferred inflows of resources related to the PEIA Plan from the following sources:

<b>PEIA Plan</b> (Dollars in thousands)	<u>Deferred Outflows</u> <u>of Resources</u>	<u>Deferred Inflows</u> <u>of Resources</u>
Differences between expected and actual experience	\$ -	\$ 3
Net difference between projected and actual earnings on OPEB plan investments	-	13
Changes in proportion and differences between Fund contributions and proportionate share of contributions		137
Fund contributions subsequent to the measurement date	66	
Total	<u>\$ 66</u>	<u>\$ 153</u>

The amount of \$66,000 reported as deferred outflows of resources related to OPEB resulting from Fund contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>PEIA Plan</b> (Dollars in thousands)	
<u>Year Ended</u> <u>June 30:</u>	<u>OPEB</u> <u>Expense</u>
2019	\$ (41)
2020	(41)
2021	(41)
2022	(30)

**Actuarial assumptions.** The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

<b>PEIA Plan</b>	
Inflation	2.75%
Salary increases	Dependent upon pension system ranging from 3.00% to 6.50, including inflation
Investment rate of return	7.15%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.50% and 9.75% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax.
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage of payroll over a 21 year closed period
Remaining amortization method	21 years closed as of June 30, 2016

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and Teachers' Retirement System (TRS). RP-2000 Healthy Annuitant Mortality Table projected to 2025 with scale BB for West Virginia Death, Disability, and Retirement Fund (Troopers A) and West Virginia State Police Retirement System (Troopers B). Pre-Retirement: RP-2000 Non-Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and TRS. RP-2000 Non-Annuitant Mortality Table projected to 2020 with Scale BB for Troopers A and B.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010- June 30, 2015.

The long-term expected rate of return of 7.15% on the PEIA Plan investments was determined by a combination of an expected long-term rate of return of 7.50% for long-term assets invested with the WVIMB and an expected short-term rate of return of 3.0% for assets invested with the WVBOTI. Long-term pre-funding assets are invested with the WVIMB. The strategic asset allocation consists of 55% equity, 15% fixed income, 10% private equity, 10% hedge fund and 10% real estate invested. Short-term assets used to pay current year benefits and expenses are invested with the WVBOTI.

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

<b>PEIA Plan</b>	
<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic	17.0%
Non-Large Cap Domestic	22.0%
International Qualified	24.6%
International Non-Qualified	24.3%
International Equity	26.2%
Short-Term Fixed	0.5%
Total Return Fixed Income	6.7%
Core Fixed Income	0.1%
Hedge Fund	5.7%
Private Equity	19.6%
Real Estate	8.3%
Opportunistic Income	4.8%
Cash	0.0%

**Discount rate.** The discount rate used to measure the total OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that PEIA Plan contributions would be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. Future pre-funding assumptions include a \$30 million annual contribution from the State through 2037. Based on those assumptions, and that the PEIA Plan is expected to be fully funded by fiscal year ended June 30, 2036, the PEIA Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on PEIA Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates. The discount rate used to measure the total OPEB liability at June 30, 2016 is a 0.45% increase from the June 30, 2015 valuation.

**Other key assumptions.** The projection assumes that the capped subsidy aggregate contribution limit of \$150 million for 2017 would increase by \$10 million per year on and after 2018. Additionally, the per member subsidy is projected to increase by at least 3.0% per year but no more than the healthcare trend inflation assumption such that the product of

the projected subsidy and projected members is less than the projected aggregated capped costs; and the member's share of plan costs is expected remain stable as a percentage of total costs following the year that the program is fully funded. After 2035, the program is projected to be fully funded and the sponsor is assumed to contribute the residual portion of normal cost and operational expenses needed to maintain a funded ratio of 100% in future years. In addition, after 2035, the member's share of total plan costs is assumed to remain stable at approximately 61% of total plan costs. These assumptions produced per member annual capped subsidy increases of 3.0% per year from 2018 to 2023 and 4.5% per year after 2023.

Members hired on or after July 1, 2010, are required to pay 100% of expected cost of coverage, resulting in no implicit or explicit employer cost. Consequently, these members are excluded from the actuarial valuation.

**Sensitivity of the Fund's proportionate share of the net OPEB liability to changes in the discount rate.** The following presents the Fund's proportionate share of the net OPEB liability, calculated using the current discount rate, as well as what the Fund's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

	Net Change in Discount Rate		
	Current		
	1% Decrease	Discount Rate	1% Increase
	6.15%	7.15%	8.15%
Fund's proportionate share of the net OPEB liability	\$ 991	\$ 851	\$ 735

**Sensitivity of the Fund's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.** The following presents the Fund's proportionate share of the net OPEB liability, as well as what the Fund's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage point higher than the current rates:

	Net Change in Healthcare Cost Trend Rates		
	Current		
	1% Decrease	Healthcare Cost Trend	1% Increase
Fund's proportionate share of the net OPEB liability	\$ 715	\$ 851	\$ 1,018

## NOTE I – SPECIAL ITEM - TRANSFER OF OPERATIONS

On March 8, 2018, the 2018 State Legislature passed Senate Bill 261 transferring administration of the WVAHTF to the Fund effective June 8, 2018 to streamline government and provide efficiency by reducing redundancy. On June 8, 2018, the WVAHTF transferred the assets, deferred outflows of resources, liabilities and deferred inflows of resources comprising its operations to the Fund. As a result of the transaction, the Fund recognized the following assets, deferred outflows of resources, liabilities, deferred inflows of resources and increase in net position at the time of the special item transfer of operations:

(Dollars in thousands)	Carrying Values
Transferred Assets	
Restricted cash and cash equivalents	\$ 4,114
Restricted mortgage loans, net of allowance for losses	379
Total Assets	<u>4,493</u>
Deferred outflows of resources	<u>22</u>
Transferred Liabilities	
Accounts payable and other liabilities	42
Total Liabilities	<u>42</u>
Deferred inflows of resources	<u>4</u>
Restricted Net Position of Transferred Operations	<u>\$ 4,469</u>

## NOTE J – SUBSEQUENT EVENTS

On July 19, 2018, the Fund issued the Housing Finance 2018 Series A bonds in the amount of \$25,000,000. Bond proceeds will be used to originate single family mortgage loans.

On August 1, 2018, 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 \$3,895,000.

## NOTE K - NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued Statement No. 84, *Fiduciary Activities*, Statement No. 87, *Leases*, Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* and Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The provisions of Statement No. 88 are effective for periods beginning after June 15, 2018. The provisions of Statement No. 84 are effective for periods beginning after December 15, 2018. The provisions of Statements No. 87 and 89 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 LIABILITY PERS

(Dollars in thousands)	Year Ended June 30			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
The Fund's proportionate (percentage) of the net pension liability	0.381747%	0.383639%	0.413624%	0.413581%
The Fund's proportionate share of the net pension liability	\$ 1,648	\$ 3,526	\$ 2,310	\$ 1,526
The Fund's covered payroll	\$ 5,180	\$ 5,286	\$ 5,609	\$ 5,538
The Fund's proportionate share of the net pension liability as a Percentage of its covered payroll	31.81%	66.70%	41.18%	27.56%
Plan fiduciary net position as a percentage of the total pension liability	93.67%	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,					
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 588	\$ 622	\$ 714	\$ 785	\$ 803	\$ 743
Contributions in relation to the statutorily required contribution	588	622	714	785	803	743
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund's covered payroll	\$ 5,345	\$ 5,183	\$ 5,289	\$ 5,607	\$ 5,538	\$ 5,307
Contributions as a percentage of covered payroll	11.0%	12.0%	13.5%	14.0%	14.5%	14.0%

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS  
WELFARE BENEFIT PLAN**

(Dollars in thousands)	June 30,	
	2018	2017
<b><u>Total OPEB Liability</u></b>		
Service cost	\$ 147	\$ 150
Interest (includes interest on service cost)	234	245
Changes of benefit terms	-	-
Differences between expected and actual experience	(200)	-
Changes of assumptions	(660)	-
Benefit payments	(228)	(218)
<b>Net change in total OPEB liability</b>	<b>\$ (707)</b>	<b>\$ 177</b>
<b>Total OPEB liability - beginning</b>	<b>5,579</b>	<b>5,402</b>
<b>Total OPEB liability - ending</b>	<b>\$ 4,872</b>	<b>\$ 5,579</b>
<b><u>Plan fiduciary net position</u></b>		
Contributions - employer	\$ 228	\$ 405
Contributions - member	-	-
Net investment income	46	22
Benefit payments, including refunds of member contributions	(228)	(218)
Administrative expense	(35)	(16)
<b>Net change in plan fiduciary net position</b>	<b>\$ 11</b>	<b>\$ 193</b>
<b>Plan fiduciary net position - beginning</b>	<b>5,433</b>	<b>5,240</b>
<b>Plan fiduciary net position - ending</b>	<b>\$ 5,444</b>	<b>\$ 5,433</b>
<b>Net OPEB (asset) liability - ending</b>	<b>\$ (572)</b>	<b>\$ 146</b>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	<b>111.74%</b>	<b>97.40%</b>

**SCHEDULE OF CONTRIBUTIONS TO THE WELFARE BENEFIT PLAN**

(Dollars in thousands)	June 30,	
	2018	2017
Actuarially determined contribution	\$ 101	\$ 162
Contributions in relation to the actuarially determined contribution	228	405
Contribution (excess)	(127)	(243)
Covered employee payroll	\$ 5,396	\$ 5,268
Contributions as a percentage of covered employee payroll	4.23%	7.69%

**SCHEDULE OF ANNUAL RATE OF RETURN ON INVESTMENTS  
WELFARE BENEFIT PLAN**

	2018	2017
Money-weighted rate of return, net of investment expense	0.78%	0.66%

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY PLAN**

(Dollars in thousands)	<b>Year Ended June 30, 2017</b>
The Fund's proportionate (percentage) of the net OPEB liability	0.034607%
The Fund's proportionate share of the net OPEB liability	\$ 851
State's proportionate share of the net OPEB liability associated with the Fund	175
Total	<u>\$ 1,026</u>
The Fund's covered employee payroll	\$ 124
The Fund's proportionate share of the net OPEB liability as a Percentage of its covered employee payroll	686.29%
Plan fiduciary net position as a percentage of the total OPEB liability	25.10%
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 WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY PLAN**

(Dollars in thousands)	<b>Year ended June 30, 2018</b>
Required contribution	\$ 66
Contributions in relation to the required contribution	66
Contribution deficiency (excess)	<u>\$ -</u>
The Fund's covered employee payroll	\$ 126
Contributions as a percentage of covered payroll	52.4%

See Independent Auditor's Report and Notes to the Required Supplementary Information.

## 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, PEIA, and the Welfare Benefit Plan and the schedules of annual rate of return on investments of the Welfare Benefit 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, 2017 using the actuarial assumptions and methods as follows:

	<u>2015 - 2017</u>	<u>2014</u>
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	Active - 100% of RP-2000 Non-Annuitant, Scale AA fully generational (2016, 2017) Retired healthy males - 110% of RP-2000 Healthy Annuitant, Scale AA fully generational Retired healthy females - 101% of RP-2000 Healthy 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	Healthy males - 1983 GAM Healthy females - 1971 GAM Disabled males - 1971 GAM 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	.007 - .675% (2015 - 0-.675%)	0 - .8%
Retirement rates	12% - 100% (2015 - 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 Welfare Benefit 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 – PERS PLAN AMENDMENTS**

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.

## **NOTE D – PEIA PLAN CHANGES IN ASSUMPTIONS**

Below are changes in the assumptions between the 2016 and 2015 valuations for the PEIA Plan:

Certain economic and behavioral assumptions are unique to healthcare benefits. These assumptions include the healthcare trend, per capita claims costs, the likelihood that a member selects healthcare coverage and the likelihood that a retiree selects one-person, two person or family coverage. These assumptions were updated based on a recent experience study performed by the RHBT actuaries using five-year experience data through June 30, 2015. The updated per capita claims costs were also based on recent claims, enrollment and premium information as of the valuation date.

For the June 30, 2016 valuation, the retiree healthcare participation assumption for each retirement plan is slightly higher than the previous assumption used in the June 30, 2015 OPEB valuation. More members who were covered as actives will be assumed to participate as retirees.

The 2016 and 2015 valuations include consideration of the \$30 million annual appropriations under Senate Bill 419, through July 1, 2037, or if earlier, the year the benefit obligation is fully funded. Additionally, the presentation of covered payroll was changed for the June 30, 2015, actuarial valuation. Participating employees hired before July 1, 2010, pay retiree premiums that are subsidized based on years of service at retirement. Participating employees hired on or after July 1, 2010, are required to fully fund premium contributions upon retirement. Consequently, beginning June 30, 2015, actuarial valuation covered payroll represents only the payroll for those OPEB eligible participating employees that were hired before July 1, 2010, allowing a better representation of the UAAL as a percentage of covered payroll, whereas, for the prior years, covered payroll is in total for all participating employees.