MINUTES OF THE REGULAR MEETING
OF THE
BOARD OF DIRECTORS
WEST VIRGINIA HOUSING DEVELOPMENT FUND
January 31, 2019

The regular meeting of the Board of Directors of the West Virginia Housing Development Fund (the "Fund") was held on Thursday, January 31, 2019, at the office of the West Virginia Housing Development Fund, 5710 MacCorkle Avenue, SE, Charleston, West Virginia. The Chair called the meeting to order at 10:01 a.m. with the following members present throughout, except where noted:

Ann Urling, Chair
Norman Bailey, Representative for the Honorable Kent Leonhardt,
Commissioner of Agriculture
David Gardner, Member
John Gianola, Member
Bob Nistendirk, Member (via phone)
Mary Skeens, Member (via phone)
Steven Travis, Representative for the Honorable Patrick Morrisey, Attorney General

Members Absent:

Sam Kapourales, Member
Josh Stowers, Representative for the Honorable John Perdue, Treasurer

Staff present:

Erica Boggess, Executive Director
Josh Brown, Senior Manager - Asset Management
Julie Davis, Deputy Director – Production
George Gannon, Communications Administrator
Chad Leport, Division Manager - Accounting and Finance
Martha Lilly, Legal Assistant
Jill Martin, Executive Assistant
Kelley Ridling, Senior Manager - Internal Audit
Jon Rogers, Senior Division Manager - Single Family Lending
Kristin Shaffer, Senior Legal Counsel
Nathan Testman, Senior Division Manager – Multifamily Lending
Crystal Toney, Deputy Director - Administration
Dorothy White, Federal Compliance Officer
Michelle Wilshere, Senior Manager - Low Income Housing Tax Credit Program

Taran Wolford, Senior Manager – Human Resources

Others Present:

Samme Gee, Jackson Kelly PLLC
Kelley Goes, Jackson Kelly PLLC

APPROVAL OF THE MINUTES OF THE DECEMBER 19, 2018 MEETING

Member David Gardner moved the approval of the minutes of the December 19, 2018 meeting. His motion was seconded by Member John Gianola, and, upon the affirmative vote of seven (7) members present, the Chair declared the motion adopted.

FINANCIAL STATEMENTS FOR THE PERIOD ENDED JANUARY 31, 2019

Chad Leport reviewed the financial statements for the period ended January 31, 2019. The financials were accepted as presented.

ACCEPTANCE OF FEDERAL AUDIT REPORT FOR THE YEAR ENDING JUNE 30, 2018

Mr. Leport presented the 2018 Federal Audit to the Board. Mr. Leport stated that the Audit Committee met prior to the Board meeting and accepted the Federal Audit and recommends that the Board approve the Audit as submitted.

Representative David Gardner moved to accept the Audit Committee's recommendation to approve the 2018 Federal Audit as presented. His motion was seconded by Representative Steven Travis, and, upon the affirmative vote of the seven (7) members present, the Chair declared the motion adopted.

A copy of the Fiscal Year 2018 Federal Audit is attached as Exhibit A.

CONSIDERATION OF LOW-INCOME HOUSING TAX CREDIT PROGRAM 2019-2020 QUALIFIED ALLOCATION PLAN

Michelle Wilshere gave a brief overview of the Low-Income Housing Tax Credit Program. Ms. Wilshere informed the Board that significant changes were made to the 2017-2018 Low-Income Housing Tax Credit Program Qualified Allocation Plan and the proposed revisions for the 2019-2020 Plan are clarifications and minor changes. Ms. Wilshere stated that clarifications and changes are outlined in the memo included in the Board packet.

Ms. Wilshere stated that, as required by Section 42 of the Internal Revenue Code, the Plan will be subject to public hearing and presented to the Governor for his signature. Ms. Wilshere explained that if substantive changes are made to the 2019-2020 Plan following the public hearing, staff may bring the changes back to the Board for approval before forwarding the 2019-2020 Plan to the Governor for his approval.

Representative Norman Bailey moved to approve the Low-Income Housing Tax Credit Program 2019-2020 Qualified Allocation Plan. His motion was seconded by Member Gardner, and, upon the affirmative vote of the seven (7) members present, the Chair declared the motion adopted.

A copy of the January 23, 2019 Memorandum summarizing the Proposed 2019-2020 Plan changes for the Low-Income Housing Tax Credit Program is attached as Exhibit B.

CONSIDERATION OF LOW-INCOME HOUSING TAX CREDIT PROGRAM 2019-2020 TAX CREDIT MANUAL

Ms. Wilshere presented the 2019-2020 Low-Income Housing Tax Credit Manual and explained that the Tax Credit Manual is the Fund's operational guide for the Low-Income Housing Tax Credit Program.

Ms. Wilshere stated that several changes are proposed to be made to the Manual as outlined in the Board packet. Ms. Wilshere stated that the Manual is not subject to public hearing or Governor's approval, and staff is requesting approval of the Manual in substantially the form submitted.

Representative Bailey moved to approve the Low-Income Housing Tax Credit Program 2019-2020 Tax Credit Manual. His motion was seconded by Member Gardner, and, upon the affirmative vote of the seven (7) members present, the Chair declared the motion adopted.

A copy of the January 23, 2019 Memorandum summarizing the Proposed 2019-2020 Tax Credit Manual changes for the Low-Income Housing Tax Credit Program is attached as Exhibit C.

CONSIDERATION OF APPROVAL OF RFP TO ASSIST WITH REAL ESTATE SALES AND MONITORING

Crystal Toney informed the Board that over the past few months, the Loan Servicing Department has been updating the Department's policies and procedural manuals to improve and streamline processes.

Ms. Toney stated that one area that staff would like to improve is the process of marketing and selling the Fund's foreclosed properties. Ms. Toney distributed pictures of some examples of properties owned by the Fund and described the general conditions of these properties. Ms. Toney stated the homes include a variety of issues, including mold and water damage and, in some cases, a complete demolition is required. Ms. Toney explained that the Fund tries to repair the homes if the repairs will increase the value of the home enough to cover the costs of repairs and decrease the Fund's loss on the property. If this is not possible, the Fund sells the property "as is".

Ms. Toney explained that, at times, the location and condition of a property make it difficult to find a realtor willing to list the home. Ms. Toney informed the Board that the average sales price of the Fund's properties is between $50,000 and $60,000 and that the properties sold in 2017 and 2018 took an average of 18 to 20 months to sell from the date of the foreclosure. Ms. Toney stated the longer a property sits vacant, the more likely deterioration, water issues, mold, theft, and vandalism are to occur which increase the Fund's losses.

Ms. Toney stated the properties are located all over the State, and staff believes that issues can be resolved faster which will help the homes sells faster if this function is outsourced to a large brokerage firm that offers property management services in addition to marketing and selling properties. Ms. Toney stated that staff believes that outsourcing this function will reduce losses which will offset if not exceed the costs of the service. Ms. Toney also stated that other state housing finance agencies have successfully outsourced these functions.

Ms. Toney stated that staff is requesting approval to issue an RFP for REO Real Estate Services and to enter into a contract with a West Virginia real estate brokerage firm to obtain state-wide coverage for REO properties with the oversight and guidance of Fund staff.

A brief discussion followed.

Member Gardner moved to accept and grant approval for an RFP for Real Estate Services and upon successful completion enter into a contract for statewide coverage of the services. His motion was seconded by Representative Travis, and, upon the affirmative vote of the seven (7) members present, the Chair declared the motion adopted.

INFORMATIONAL ITEMS - STATE RESILIENCY OFFICE

Erica Boggess informed the Board that in 2017, H. B. 2935 was enacted to create both the joint Legislative Committee on Flooding and the State Resiliency Office (the "SRO") to "provide a comprehensive and coordinated statewide resiliency and flood protection planning program to save lives, and develop community and economic resiliency plans including, but not limited to, reducing or mitigating flood damage while supporting economic growth and protecting the environment". Ms. Boggess stated that the Fund is not a designated member of the SRO Committee, but has been invited to attend the SRO meetings and actively participates as Sector Lead to develop state mitigation and resiliency plans to reduce the impact of future floods and other disasters including economic downturn, cyber-attacks, etc.

Ms. Boggess stated that various Sector committees attended training in January. Ms. Boggess stated that she will be serving as the Housing Sector Chair and will engage various staff as needed, and that this committee will take considerable staff time. Ms. Boggess stated the goal of the SRO Committee is to establish a plan by the end of June 2019.

INFORMATIONAL ITEMS - DISASTER RECOVERY

Ms. Boggess stated that in June 2018, the Fund was asked to assist the State in the successful use of the CDBG DR funds allocated for 2016 flood recovery known as the WV Rise Program.

Ms. Boggess stated that in August of 2018, the West Virginia Development Office (WVDO) and the Fund entered into an Intergovernmental Agreement specifying the specific roles and functions of the Fund in assisting with the restoration of the Riverview Project replacement units, developing a multifamily rental housing program, and the completion of a statewide housing needs assessment.

Ms. Boggess informed the Board that the Fund issued an RFP and awarded the contract for the housing needs assessment. A kickoff meeting is scheduled for early February to start the project. Ms. Boggess stated that the assessments on the 12 counties affected by the 2016 floods will be first and should be completed by May 2019.

Ms. Boggess stated that the other two pieces of the Fund's involvement in the WV Rise Program have slowed down and updated the Board on the status of the multifamily program and proposed amendments to the Department of Commerce's Action Plan. Ms. Boggess also stated that the Fund is working on a subrecipient agreement between the Fund and the Development office.

Ms. Boggess stated she will give an update at the next Board Meeting.

EXECUTIVE SESSION

Member Gardner moved that the Board enter Executive Session under W. Va. Code § 6-9A-4(b)(7) to discuss legal matters. His motion was seconded by Member Gianola and, upon the affirmative vote of the seven (7) members present, the Chairman declared the motion adopted. The Board adjourned into Executive Session at 10:56 a.m.

The Executive Session concluded at 11:18 a.m.

Chair Ann Urling stated that no action took place during the Executive Session.

There being no further business, Member Gardner moved to adjourn the meeting. His motion was seconded by Member Gianola. Meeting adjourned at 11:19 a.m.

Martha Lilly

Martha Lilly, Assistant Secretary

Exhibit A

West Virginia Housing Development Fund

AUDITED FINANCIAL STATEMENTS and Accompanying Financial Information

For the years ended June 30, 2018 and 2017

Audited Financial Statements and
Accompanying Financial Information

WEST VIRGINIA HOUSING DEVELOPMENT FUND

For the Years Ended June 30, 2018 and 2017

Audited Financial Statements

Required Supplementary Information

Accompanying Financial Information

Government Auditing Standards and Uniform Guidance Reports

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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 and unmodified opinion.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13, 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 47 through 51 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2018, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
August 29, 2018, except for the
section on *Other Information*, for
which the date is _________, 2019

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.[1]

The financial transactions of the Fund related to its various programs are reported in the enterprise fund financial statements, which are more fully explained in the Notes to the Financial Statements. These programs consist of the General Account, Bond Programs, Other Loan Programs, 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.

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

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)	2018	2017	2016
ASSETS			
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	885,673	924,268	937,421
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pension and OPEB	1,101	2,070	1,974
LIABILITIES			
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	369,287	426,596	449,369
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension and OPEB	1,486	316	1,489
NET POSITION			
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
TOTAL NET POSITION	$ 516,001	$ 499,426	$ 488,537

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	$ 75,667	$ 81,632	$ 93,506

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 (1)		19	-	-
Balance at end of the fiscal year		$ 281,604	$ 337,771	$ 363,880
Bonds payable - current		$ 27,280	$ 35,715	$ 33,975
Bonds & notes payable - noncurrent		254,324	302,056	329,905
Total bonds & notes payable		$ 281,604	$ 337,771	$ 363,880

(1) 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)	2018	2017	2016
REVENUES			
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	107,930	111,469	121,173
EXPENSES			
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	94,716	100,580	106,439
INCOME BEFORE SPECIAL ITEM	13,214	10,889	14,734
SPECIAL ITEM - Transfer of operations (1)	4,469	-	-
CHANGE IN NET POSITION	17,683	10,889	14,734
NET POSITION AT BEGINNING OF YEAR	499,426	488,537	473,803
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE (2)	(1,108)	-	-
NET POSITION AT BEGINNING OF YEAR, AS RESTATED	498,318	488,537	473,803
NET POSITION AT END OF YEAR	$ 516,001	$ 499,426	$ 488,537

(1) See *Note I - Special item - transfer of operations*

(2) 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	$ 3,395	$ 3,188	$ 3,529
% 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)		June 30,	
	2018	**2017**	2016
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	**$ 566,031**	**$ 575,325**	$ 597,007
% Decrease from prior year	**(1.6%)**	**(3.6%)**	

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.

Average Loan Interest Rate	
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.

Delinquency Rates

	WV Housing Development Fund As of June 30,			WV*	USA*
				As of March 31, 2018	
Months Past Due	2018	2017	2016		
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

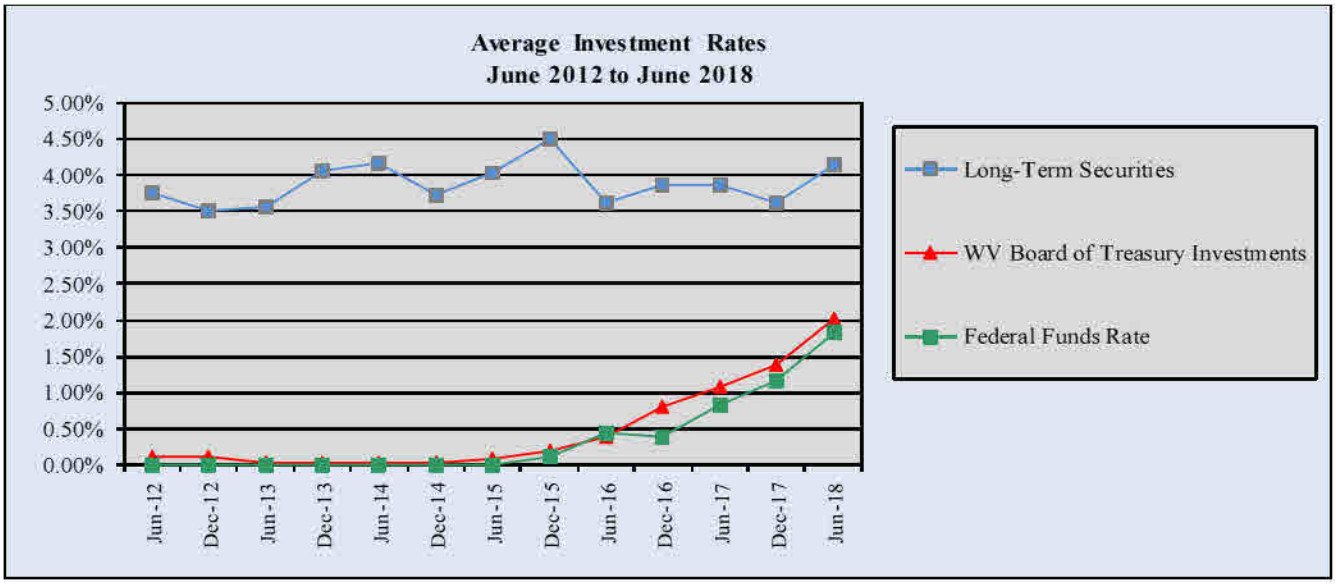
The Fund invests cash not required for immediate disbursement as permitted by the Act, the bond resolutions, and the Board approved Investment Policy. Funds related to the Bond Programs capital reserves and the Bond Insurance Account are primarily invested in long-term United States agency securities 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.

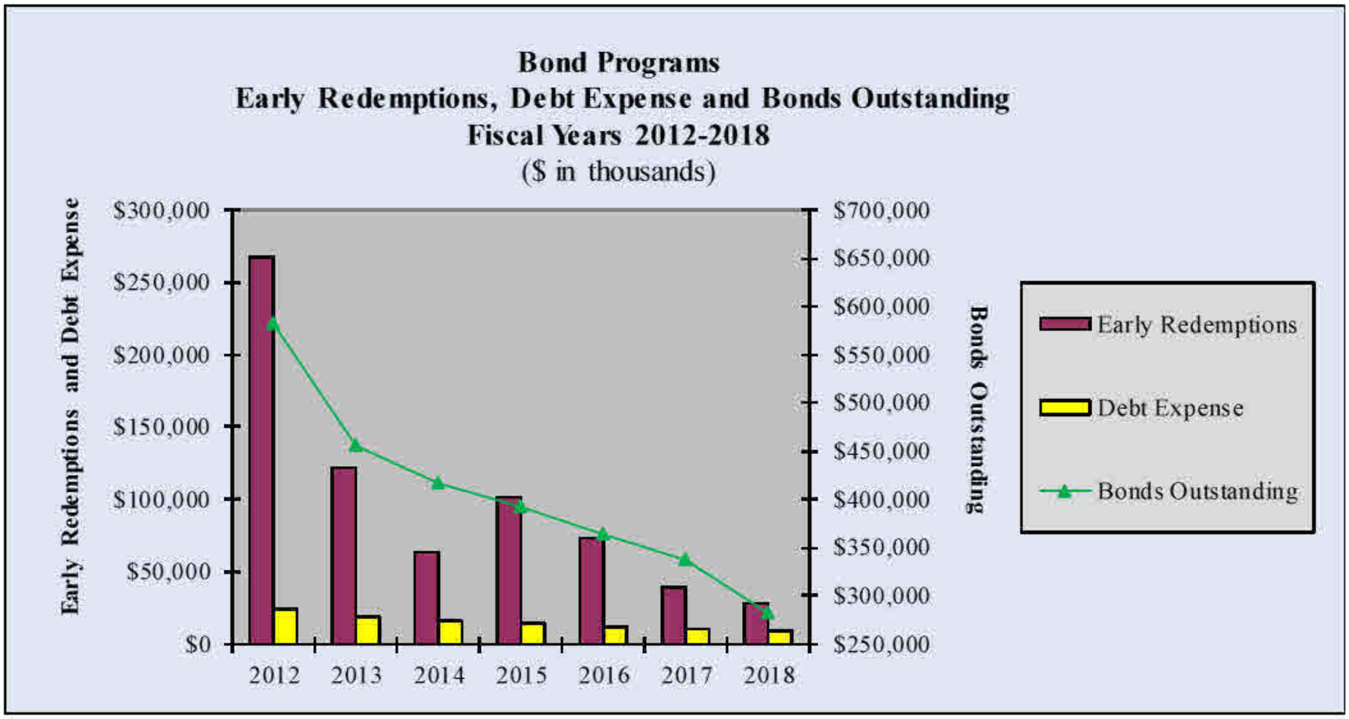
When bonds are issued from the bond volume allocation, known as "new money" bonds, certain repayments and prepayments of mortgage loans made from these proceeds may be "recycled" into additional mortgage loans for ten years. The Fund uses recycling to supplement its bond issues by using prepayments for 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.

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

	June 30, 2018	June 30, 2017
ASSETS		
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	68,416	65,272
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	817,257	858,996
Total assets	885,673	924,268
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pension and OPEB--*(Notes A, F and H)*	1,101	2,070
LIABILITIES		
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	44,988	53,554
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	324,299	373,042
Total liabilities	369,287	426,596
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension and OPEB--(Notes A, F and H)	1,486	316
NET POSITION		
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	$ 516,001	$ 499,426

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

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

	Year Ended June 30, 2018	2017
OPERATING REVENUES		
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
	107,053	111,551
OPERATING EXPENSES		
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
	85,143	89,894
OPERATING INCOME	21,910	21,657
NON-OPERATING - FINANCING AND INVESTING (EXPENSES) REVENUES		
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)
	(8,696)	(10,768)
INCOME BEFORE SPECIAL ITEM	13,214	10,889
SPECIAL ITEM		
Transfer of operations--*(Note I)*	4,469	-
CHANGE IN NET POSITION	17,683	10,889
NET POSITION AT BEGINNING OF YEAR	499,426	488,537
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE [1]	(1,108)	-
NET POSITION AT BEGINNING OF YEAR, AS RESTATED	498,318	488,537
NET POSITION AT END OF YEAR	$ 516,001	$ 499,426

[1] See Note A - Accounting Methods

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

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

	Year Ended June 30, 2018	Year Ended June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from lending activities	$ 110,039	$ 109,356
Receipts from other operating activities	8,185	8,283
Receipts from escrows and advance activities [1]	73,643	86,144
Disbursements from escrows and advance activities [1]	(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	32,538	39,805
CASH FLOWS USED IN NONCAPITAL FINANCING ACTIVITIES		
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 [2]	4,114	-
Net cash used in noncapital financing activities	(61,976)	(36,903)
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment and furnishings	(274)	-
Net cash used in capital and related financing activities	(274)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
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	6,766	11,493
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	$ 86,622	$ 109,568
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
	$ 86,622	$ 109,568

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

[2] 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)

	Year Ended June 30, 2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
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	$ 32,538	$ 39,805
Noncash investing and financing activities:		
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)

	June 30, 2018		June 30, 2017	
ASSETS				
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		5,201		4,442
Total restricted assets		5,459		5,433
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities		15		-
Total current liabilities		15		-
Total liabilities		15		-
NET POSITION RESTRICTED FOR OTHER POSTEMPLOYMENT BENEFITS	$	5,444	$	5,433

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

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

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

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

NOTE A – AGENCY DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The various programs of the Fund consist of the General Account, the Bond Programs, Other Loan Programs, 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	$ 1,316	$ (377)	$ 939	$ 1,697	$ (647)	$ 1,050

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	$ 73,781	$ (15,675)	$ 58,106	$ 72,083	$ (15,578)	$ 56,505

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	$ 8,663	$ (125)	$ -	$ 8,538

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

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)	June 30, 2018			June 30, 2017		
	Balance	Allowance	Net	Balance	Allowance	Net
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	$ 746,218	$ (98,909)	$ 647,309	$ 753,080	$ (95,906)	$ 657,174

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	$ 9,636	$ (4,429)	$ 5,207	$ 10,381	$ (4,067)	$ 6,314

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
Reported at cost					
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
Reported at estimated fair value					
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
Reported at cost					
Money Market Funds	1 day	$ 235	$ 235	$ 984	$ 984
Total		235	235	984	984
Reported at estimated fair value					
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 WVBOTI are rated AAAm. Federal agency securities consist of Fannie Mae, Federal Farm Credit Bank, Federal Home Loan Bank and Freddie Mac all of which are rated AA+. Fannie Mae MBS pools are also rated AA+. Insured Cash Sweep (ICS) Funds and the Demand Deposit Marketplace Funds are

FDIC insured. Certificates of deposit are either FDIC insured through the Certificate of Deposit Account Registry Service (CDARS) or collateralized with an irrevocable standby letter of credit issued by the Federal Home Loan Bank of 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.

As of June 30, 2018

(Dollars in thousands)	Maximum of Portfolio	Invested Funds	% of Total Investment
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%
TOTAL		$ 155,402	100%
Funds Held for Others *	N/A	15,441	
TOTAL INVESTED FUNDS		$ 170,843	

* 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	June 30, 2017
Level 1 inputs		
Federal agency securities	$ 61,587	$ 101,098
U.S. Treasury securities	11,139	11,650
Total	72,726	112,748
Level 2 inputs		
Fannie Mae MBS pools	1,168	1,446
Total	1,168	1,446
Total investments, reported at estimated fair value	$ 73,894	$ 114,194

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

(Dollars in thousands)	June 30, 2018	June 30, 2017
Level 1 inputs		
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	$ 5,201	$ 4,442

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	June 30, 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	$ 178,046	$ 207,912
Less unrealized gains	7,203	10,048
Total Invested Funds	$ 170,843	$ 197,864

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

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

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)

	Bonds Payable Current	Bonds & Notes Payable Noncurrent	Bonds & Notes Payable Total
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	$ 27,280	$ 254,324	$ 281,604

(Dollars in thousands)

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

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

	Original Amount Authorized	Outstanding at June 30, 2018	2017
	(Dollars in thousands)		
HOUSING FINANCE BOND PROGRAM			
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
GENERAL NEW ISSUE BOND PROGRAM			
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		280,730	337,020
OTHER LOAN PROGRAMS			
Notes Payable (0.00%), net of allowance for losses (1)	2,000	874	751
Total bonds & notes payable		$ 281,604	$ 337,771

(1) 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.

Bonds Maturing During Year Ending June 30:	Principal	Interest	Total
		(Dollars in thousands)	
2019	(1) $ 27,280	$ 8,555	$ 35,835
2020	23,475	7,988	31,463
2021	23,405	7,386	30,791
2022	20,390	6,724	27,114
2023	16,735	6,173	22,908
2024-2028	64,030	23,947	87,977
2029-2033	55,540	13,975	69,515
2034-2038	36,105	5,303	41,408
2039-2043	12,375	1,150	13,525
2044-2046	1,395	77	1,472
	$ 280,730	$ 81,278	$ 362,008

(1) 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.

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	
	Deferred Outflow of Resouces	**Deferred Inflows of Resources**
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	-
	$ 746	**$ 616**

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

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:

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

Discount Rate. The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will continue to be made at statutorily required rates, which are determined annually based on actuarial valuations. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

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

(Dollars in thousands)

Net Pension Liability (Asset)		
1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
$ 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.*

(Dollars in thousands)

	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	$ 435	$ 414	$ 392

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	100
Total	111

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:

Welfare Benefit Plan (Dollars in thousands)	
Total OPEB Liability	$ 4,872
Plan Fiduciary Net Position	5,444
Net OPEB Liability (Asset)	$ (572)
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:

Welfare Benefit Plan	
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:

Welfare Benefit Plan Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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 Actuarily Determined Contribution (ADC) was calculated each year based on the current closed amortization period. The assets were then projected forward reflecting known contributions through June 30, 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.

Welfare Benefit Plan
(Dollars in thousands)

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at 6/30/2017	$ 5,579	$ 5,433	$ 146
Changes for the year:			
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
Net changes	(707)	11	(718)
Balances at 6/30/2018	$ 4,872	$ 5,444	$ (572)

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% Decrease 3.50%	Discount Rate 4.50%	1% Increase 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)	$ (118)	$ (572)	$ (968)
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 Minus 1%	Baseline Trends	Trend 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)	$ (1,046)	$ (572)	$ (19)
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	$ 289	$ 717

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

Welfare Benefit Plan
(Dollars in thousands)

Year Ended June 30:	OPEB Expense
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 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:

PEIA Plan (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	$	1,026

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:

PEIA Plan (Dollars in thousands)	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and acutal 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	$ 66	$ 153

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:

PEIA Plan
(Dollars in thousands)

Year Ended June 30:	**OPEB Expense**
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:

PEIA Plan	
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:

PEIA Plan

Asset Class	Long-Term Expected Real Rate of Return
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:

PEIA Plan
(Dollars in thousands)

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

Sensitivity of the Fund' 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:

PEIA Plan
(Dollars in thousands)

	Net Change in Healthcare Cost Trend Rates		
	1% Decrease	Current 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	4,493
Deferred outflows of resources	22
Transferred Liabilities	
Accounts payable and other liabilities	42
Total Liabilities	42
Deferred inflows of resources	4
Restricted Net Position of Transferred Operations	$ 4,469

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 LIABILTIY PERS

(Dollars in thousands)	Year Ended June 30 2018	2017	2016	2015
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, 2018	2017	2016	2015	2014	2013
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)	$ -	$ -	$ -	$ -	$ -	$ -
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		June 30, 2017	
Total OPEB Liability				
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)
Net change in total OPEB liability	**$**	**(707)**	**$**	**177**
Total OPEB liability - beginning		**5,579**		**5,402**
Total OPEB liability - ending	**$**	**4,872**	**$**	**5,579**
Plan fiduciary net position				
Contributions - employer	$	228	$	405
Contributions - member		-		-
Net investment income		46		22
Benefit payments, including refunds of member contributions		(228)		(218)
Administrative expense		(35)		(16)
Net change in plan fiduciary net position	**$**	**11**	**$**	**193**
Plan fiduciary net position - beginning		**5,433**		**5,240**
Plan fiduciary net position - ending	**$**	**5,444**	**$**	**5,433**
Net OPEB (asset) liability - ending	**$**	**(572)**	**$**	**146**
Plan fiduciary net position as a percentage of the total OPEB liability		111.74%		97.40%

SCHEDULE OF CONTRIBUTIONS TO THE WELFARE BENEFIT PLAN

(Dollars in thousands)	June 30, 2018		June 30, 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)		Year Ended June 30, 2017
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	$	1,026
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)		Year ended June 30, 2018
Required contribution	$	66
Contributions in relation to the required contribution		66
Contribution deficiency (excess)	$	-
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:

	2015 - 2017	2014
Actuarial cost method	Individual entry age normal cost with level percentage of payroll	Individual entry age normal cost with level percentage of payroll
Asset valuation method	Fair value	Fair value
Amortization method	Level dollar, fixed period	Level dollar, fixed period
Amortization period	Through Fiscal Year 2035	Through Fiscal Year 2035
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases:		
State	3.0 - 4.6%	4.25 - 6.0%
Non-state	3.35 - 6.0%	
Inflation rate	3%; (2015 - 1.90%)	2.20%
Discount rate	7.50%	7.50%
Mortality rates	Active - 100% of RP-2000 Non-Annuitant, Scale AA fully generational (2016, 2017)	Healthy males - 1983 GAM
	Retired healthy males - 110% of RP-2000 Healthy Annuitant, Scale AA fully generational	Healthy females - 1971 GAM
	Retired healthy females - 101% of RP-2000 Healthy Annuitant, Scale AA fully generational	Disabled males - 1971 GAM
	Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA fully generational	Disabled females - Revenue ruling 96-7
	Disabled females - 107% of RP-2000 Disabled Annuitant, Scale AA fully generational	
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.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

WEST VIRGINIA HOUSING DEVELOPMENT FUND

Year Ended June 30, 2018

Award Description	Federal CFDA Number	Receipt from HUD & IDIS Drawdown	Repayment Income	Total Federal Financial Receipts	Amount of Award Expended for Administrative Reimbursement	Amount of Award Expended to Subrecipient	Total Federal Financial Expenditures FY2018	Beginning Balance of Loans from Previous Years with Continuing Federal Compliance Requirements at 6/30/2018	Total Federal Financial Expenditures
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT									
Section 8 Cluster:									
Section 8 Housing Assistance Payments									
Program - Traditional Contract Administrator	14.195	$ 134,715	$ -	$ 134,715	$ 1,254	$ 133,461	$ 134,715	$ 458,710	$ 593,425
Section 8 Performance Based Contract									
Administration	14.WV800	65,372,535	-	65,372,535	2,072,836	63,299,699	65,372,535	531,946	65,904,481
Total Section 8 Cluster		65,507,250	-	65,507,250	2,074,090	63,433,160	65,507,250	990,656	66,497,906
Housing Trust Fund Loan Program	14.275	925,300	-	925,300	-	925,300	925,300	-	925,300
Total Housing Trust Fund		925,300	-	925,300	-	925,300	925,300	-	925,300
HOME Investment Partnerships Non-Loan Program	14.239	552,256	210,559	762,815	563,929	198,886	762,815	-	762,815
HOME Investment Partnerships Loan Program	14.239	3,793,499	812,884	4,606,383	-	4,606,383	4,606,383	113,261,719	117,868,102
Total HOME Investment Partnerships Program		4,345,755	1,023,443	5,369,198	563,929	4,805,269	5,369,198	113,261,719	118,630,917
Total Federal Awards		$ 70,778,305	$ 1,023,443	$ 71,801,748	$ 2,638,019	$ 69,163,729	$ 71,801,748	$ 114,252,375	$ 186,054,123

See Independent Auditor's Report and Notes to Schedule of Expenditures of Federal Awards.

WEST VIRGINIA HOUSING DEVELOPMENT FUND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2018

NOTE A -- BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards (SEFA) is presented on the accrual basis.

NOTE B -- ADMINISTRATIVE EXPENSES

The West Virginia Housing Development Fund (the Fund) receives a fee for the administration of the Section 8 Housing Assistance Programs. The fee amount is a maximum of 2% of the fair market rent per unit per month. Also, the Fund receives reimbursement for administrative expenses relating to the HOME Investment program. The amount available for reimbursement is equal to 10% of the HOME Investment program basic allocation formula for each fiscal year.

NOTE C – HOME INVESTMENT PARTNERSHIPS PROGRAM

The following is a breakdown of total federal receipts and expenditures for the HOME Investment Partnership Program by participant number for fiscal year 2018:

Participant Number	Federal Receipts	Repayment Income	Total Federal Financial Receipts	Total Expenditures
M10-SG-54-0100	$ 1,000	$ -	$ 1,000	$ 1,000
M11-SG-54-0100	133,878	-	133,878	133,878
M12-SG-54-0100	19,650	-	19,650	19,650
M13-SG-54-0100	-	-	-	-
M14-SG-54-0100	652,446	-	652,446	652,446
M15-SG-54-0100	1,317,327	-	1,317,327	,317,327
M16-SG-54-0100	1,793,507	812,884	2,606,391	2,606,391
M17-SG-54-0100	427,947	210,559	638,506	638,506
	$ 4,345,755	$ 1,023,443	$ 5,369,198	$ 5,369,198

NOTE D – HOUSING TRUST FUND PROGRAM

The following is a breakdown of total federal receipts and expenditures for the Housing Trust Fund by participant number for fiscal year 2018:

Participant Number	Federal Receipts	Repayment Income	Total Federal Financial Receipts	Total Expenditures
F16-SG-54-0100	$ 925,300	$ -	$ 925,300	$ 925,300
	$ 925,300	$ -	$ 925,300	$ 925,300

NOTE E – LOANS WITH CONTINUING FEDERAL COMPLIANCE REQUIREMENTS

The following is a breakdown of loan balances at June 30, 2018 for which the Federal government imposes continuing compliance requirements:

Program Title	Federal CFDA Number	Loan Balance
Section 8 Cluster	14.195 and 14.WV800	$ 612,725
Housing Trust Fund	14.275	$ 925,300
HOME Investment	14.239	$ 113,684,194
		$ 115,222,219

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Virginia Housing Development Fund (the Fund), as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated August 29, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
August 29, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the West Virginia Housing Development Fund's (the Fund) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Fund's major federal programs for the year ended June 30, 2018. The Fund's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Fund's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Fund's compliance.

Opinion on Each Major Federal Program

In our opinion, the Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Fund's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for its major federal programs and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
________, 2019

WEST VIRGINIA HOUSING DEVELOPMENT FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiency(ies) identified?	____	Yes	X	None reported
Noncompliance material to financial statements noted?	____	Yes	X	No

Federal Awards

Internal control over major federal programs:

• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiency(ies) identified?	____	Yes	X	None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____	Yes	X	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.239	HOME Investment Partnerships Program
14.275	Housing Trust Fund Program

WEST VIRGINIA HOUSING DEVELOPMENT FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2018

Section I - Summary of Auditors' Results (Continued)

Dollar threshold used to distinguish between type A and type B programs:	$ 3,000,000	
Auditee qualified as low-risk auditee?	X Yes	___ No

Section II - Financial Statement Findings

No findings were identified that are required to be reported under this section.

Section III - Federal Award Findings and Questioned Costs

No findings were identified that are required to be reported under this section.

West Virginia Housing Development Fund

MEMORANDUM

TO: Members of the Board of Directors

FROM: Erica L. Boggess, CPA, Executive Director
Julie Davis, Deputy Director - Production
Nathan E. Testman, Senior Division Manager - Multifamily Lending NET
Michelle L. Wilshere, CPA, Senior Manager of the Low-Income Housing Tax Credit Program mlw

DATE: January 23, 2019

SUBJECT: Proposed 2019 and 2020 Allocation Plan for the Low-Income Housing Tax Credit Program

The Housing Development Fund, as the allocating agency for the State of West Virginia (the "State"), is responsible for administering the Low-Income Housing Tax Credit Program (the "LIHTC Program") and for developing and adopting a qualified allocation plan for the State. A qualified allocation plan specifies how properties will be selected for allocations of low-income housing tax credits. The Proposed 2019 and 2020 Allocation Plan (the "Plan") meets the requirements of Section 42 of the Internal Revenue Code and has been reviewed by counsel.

The State anticipates receiving approximately $5,004,900 in low-income housing tax credits for 2019.

The changes to the Plan were largely clarifications. Following are some of the notable changes in the Plan from the 2017 and 2018 Allocation Plan summarized according to Plan section:

PROGRAM PARTICIPANTS ELIGIBILITY REQUIREMENTS (pages 8 through 10)

Other Eligibility Requirements (page 10)

The Fund has added this section which mirrors eligibility requirements in Fund multifamily lending guides.

5710 MacCorkle Avenue, SE, Charleston, WV 25304
304-391-8600 • 1-800-933-9843
www.wvhdf.com

<u>MINIMUM HOUSING STANDARDS AND SITE SUITABILITY RATINGS (pages 10 through 14)</u>

<u>Property Architect Site Suitability Rating (pages 11 through 13)</u>

The Fund added the following items to be considered by the Property Architect when assessing the suitability of the site:

- Proximity to/location within a certified historical district
- Existence of residential tenants living in any form of dwelling (permanent or temporary) or existence of commercial tenants (including storage) on site

This section also includes the following note – Only in limited circumstances, will flood mitigation be permitted for new construction properties. For all properties which involve new construction which are located within the 100-year floodplain, all new improvements must be at a minimum of two feet above the 100-year floodplain.

<u>SELECTION AND PREFERENCE CRITERIA (pages 16 through 64)</u>

<u>Property Characteristics (Including Existing Housing as Part of a Concerted Community Revitalization Plan) (pages 16 through 25)</u>

<u>Set-Aside Categories (pages 16 through 18)</u>

The percentage of the State's Housing Credit Ceiling for two set-aside categories were adjusted as follows:

Set-Aside Category	2017-2018 Percentage	2019-2020 Percentage
Existing Low-Income Housing Preservation	25.0%	34.5%
New Supply	62.5%	53%

The new percentages are based upon the growing number of aging affordable housing properties in the state and are consistent with the per unit credit limits contained in the Tax Credit Manual.

Ability to Produce a Qualified Low-Income Residential Rental Property (pages 26 through 32)

Developer's and General Partner's Post-2008 Timely Delivery of Units (pages 29 and 30)

The Fund adjusted this pre-existing section to only award points for timely delivery of a property which received its initial Carryover Allocation Certificate during 2009 or later. The reasoning behind this change is that starting in 2009, due to the Housing and Economic Recovery Act ("HERA"), program requirements changed which permitted properties to get started later, and thus finish later. The change in this criterion will put applicants on a level playing field.

General Partner Portfolio Occupancy Rate (pages 30 and 31)

The Plan now includes exceptions for certain properties to be excluded from the General Partner Portfolio Occupancy Rate calculation. Those exceptions are the following:

- properties which have **not** been placed in service for a year before the respective measurement date listed in the Program Calendar;
- properties which have been selected to receive a new allocation of Tax Credits and are currently preparing for or undergoing rehabilitation; and
- units in a lease-purchase property which have been sold can be excluded from the total units for such property.

In order to exclude such properties, the applicant is required to submit specific information which is also outlined in this section.

Property Location and Housing Needs Characteristics (pages 32 through 46)

Un-Met Housing Need (pages 37 and 38)

The Fund has clarified that if an updated Statewide Housing Needs Assessment becomes available prior to the 2020 application rounds, the Fund will provide an update on the Fund website, will email information to the Fund LIHTCP mailing list, and provide an updated WVHDF Form 1040 which will adjust scoring for each county based upon the updated assessment.

School Performance – Grades Based Upon the West Virginia Schools Balanced Scorecard (page 45)

This criterion was included in the 2017 and 2018 Allocation Plan. However, the section was updated to reflect the recently released West Virginia Schools Balanced Scorecard. The Fund assigned letter grades to schools based upon each school's scorecard rating.

Sponsor Characteristics (pages 46 through 48)

Support Services Provided and/or Coordinated by a Non-Profit or by a Public Housing Authority or by a Governmental or Quasi-Governmental Entity (pages 47 and 48)

The Fund has adjusted this criterion to include support services that are coordinated (not just provided) by a Non-Profit or by a Public Housing Authority. The Fund has added Governmental or Quasi-Governmental Entities as acceptable service providers or coordinators. Also, the frequency of the support service is considered when determining if a property is awarded points. The USDA Food and Nutrition Services Summer Food Service Program was added as an acceptable support service if it is combined with other support services so that support services will be available throughout the year.

Tenant Populations Targeted for Occupancy (pages 48 and 49)

The Fund has clarified that the Elderly tenant population can only be targeted in elderly properties. The definition included in this subsection is considered "housing for older persons" which is exempt from the prohibition against familial status discrimination. The Fund did not want to encourage applicants to target elderly tenants (for the five extra points) unless the property was an elderly property, thus avoiding possible fair housing violations.

Properties Committed to Eventual Tenant Ownership (pages 50 and 51)

This section now includes the following exclusions:

- Properties which commit to Preference for Properties Obligated to Serving Qualified Tenants for the Longest Periods of Time are not eligible for these points.
- Properties which have established or will establish site control in the form of a Long-Term Lease, as opposed to a recorded deed, are not eligible for these points.
- Due to federally regulated affordability period requirements, properties requesting the points under this scoring criterion cannot request HOME or HTF Funds.

Energy Efficiency and Quality of Housing (pages 56 through 64)

Energy Star-Certified Appliances (pages 57 and 58)

The Fund has removed a new Energy Star-designated range hood from the list of appliances required to be installed for this criterion. The following note has been added to this section: "Although not required for scoring, either a range hood or a microwave with a recirculating range hood is required for each residential rental unit."

For this criterion, the Fund now permits a central water heating system with either Energy Star certification or a minimum energy factor of 0.95.

Thickness and Warranty of Siding and Trim (pages 60 and 61)

The Fund no longer requires that siding installed at a property be vinyl. This criterion also now includes trim in addition to siding.

For existing housing properties, the Fund will consider siding and trim which has been replaced recently if such siding and trim has a remaining manufacturer warranted life of 45 years. The Plan contains specific backup documentation which must be provided to the Fund with the application in order to substantiate such recent replacement.

Interior Unit Square Footage (page 61 and 62)

For newly constructed properties, the Fund disallows residential rental units to exceed 150 square feet above the interior unit square footage requirements listed in this section of the Plan. In the 2017 and 2018, adaptive re-use units were also subject to these maximums. However, it was determined that due to the uniqueness of each adaptive re-use property, such properties should be excluded from this requirement. Also, the Plan now states that in calculating the units' Interior Unit Square Footage to determine if it is within the maximums permitted, the square footage of interior stairs may be excluded. For townhouses, if the interior stairs were included in the calculation, this could inadvertently result in small bedrooms in order for the unit to not exceed the maximum.

Fair Housing Act and Americans with Disabilities Act Training (page 63)

The Fund removed the requirement that an examination be passed in order for the points to be awarded.

<u>COMPLIANCE MONITORING PROCEDURE (pages 69 through 79)</u>

<u>Compliance Manual (page 79)</u>

The Plan includes a reference to the Fund's LIHTC Compliance Manual which may be located on the Fund's website.

* * * * * * * * *

Staff is requesting your approval of the Plan in substantially the form submitted. As required by Section 42 of the Internal Revenue Code, the Plan will then be subjected to public comment through the public hearing process and submitted to the Governor for his approval. If, due to the public hearing, substantive changes are made to the Plan, staff may bring such changes back to the Board of Directors for approval before the Plan is forwarded to the Governor for his approval.

Exhibit C

West Virginia Housing Development Fund

MEMORANDUM

TO: Members of the Board of Directors

FROM: Erica L. Boggess, CPA, Executive Director
Julie Davis, Deputy Director - Production
Nathan E. Testman, Senior Division Manager - Multifamily Lending NET
Michelle L. Wilshere, CPA, Senior Manager of the Low-Income Housing Tax Credit Program

DATE: January 23, 2019

SUBJECT: Proposed 2019 and 2020 Tax Credit Manual for the Low-Income Housing Tax Credit Program

The following information is provided to facilitate your review of the Proposed 2019 and 2020 Tax Credit Manual ("Manual") for the Low-Income Housing Tax Credit Program.

Following is a summary of the notable changes in the Manual from the 2017 and 2018 Tax Credit Manual summarized according to Manual section:

CONSOLIDATED APPROPRIATIONS ACT OF 2018 (pages 4 and 5)

This section clarifies that the Fund has decided to not implement the income averaging provision of the Consolidated Appropriations Act of 2018 based upon a desire to delay implementation until further guidance is provided by the IRS. If the determination changes prior to the start of the 2020 application rounds, the Fund will provide notification to program participants via email and the Fund's website.

REQUIREMENTS FOR REQUESTS AND TIME-SENSITIVE DEADLINES (pages 5 through 29)

Reservation Requests (pages 6 through 14)

The Fund has added the following items to be considered in the required Capital Needs Assessment:

5710 MacCorkle Avenue, SE, Charleston, WV 25304
304-391-8600 • 1-800-933-9843
www.wvhdf.com

- Potential improvements to energy efficiency, including higher-rated HVAC equipment, specification of energy efficient windows and doors, minimum insulation standards, appliance upgrades, lighting improvements, and enhanced ventilation;
- Strategies for conservation of resources during rehabilitation, including use of durable and low-maintenance building materials, water-conserving plumbing fixtures and appliances, and drought-tolerant and low-maintenance landscaping; and
- Necessary improvements to physical accessibility.

New requirements were added as follows:

- The Applicant must submit a Chain of Title Summary, in the form prescribed by the Fund, covering at least ten years from the date the site control was executed.

- The Applicant must submit a Property Architect Site Suitability Rating Form, in the form prescribed by the Fund, which has been completed and signed by the Property Architect.

- The Applicant must submit a **color** flood map of the property site from either the WV Flood Tool website (https://www.mapwv.gov/flood/map/) or the FEMA Flood Map Service Center website (https://msc.fema.gov/portal/).

- The Applicant must submit a response from the State Historic Preservation Office ("SHPO") in response to a request of a Section 106 of the National Historic Preservation Act Review. **Important Note**: To provide enough time for a response to be received from SHPO, it is recommended that the Applicant submit a request to SHPO no later than 45 days prior to the Reservation Request due date. If a response has not been provided by SHPO by the Reservation Request due date, evidence that a full and complete Section 106 Review Request was submitted to SHPO at least 30 days prior to the Reservation Request due date must be submitted.

Carryover Allocation Requests (pages 15 through 17)

As part of an acceptable Carryover Allocation Request, the applicant must submit an updated accepted written response from the syndicator. Such updated response must be dated within 60 calendar days of the Carryover Allocation submission.

Phase I Environmental Site Assessment (pages 17 and 18)

In addition to the ASTM standards, the following considerations must be addressed in the Phase I:

- asbestos-containing building materials, radon, lead-based paint, regulatory health and safety compliance;
- continuing obligations or ongoing responsibilities, state and local compliance responsibilities related to toxic or hazardous substances, or corrective action relating to past noncompliance on the property;
- indoor air quality;
- lead in drinking water;
- mold; and
- potential for residual contamination from agricultural activities, such as the use of arsenical pesticides, even where such substances were used in accordance with the label.

A paragraph has been added clarifying that all environmental issues associated with a property must be remediated to a standard acceptable to the Fund, and that the Applicant is responsible for all legal costs and fees, if any, incurred by the Fund in reviewing and accepting the remediation plan submitted by the Applicant.

Allocation Requests (pages 24 through 28)

New requirements were added as follows:

- The Applicant must submit an as-built site plan which identifies each building by building number and includes the unit numbers and number of units in each building.

- For any property which involves new HUD property-based subsidy, the Applicant must submit a fully executed Housing Assistance Payments Contract including all necessary and required attachments.

The following was added to this section:

Additionally, the Fund will not issue the final Credit Allocation Certifications for a property until one of the Fund's designated construction professionals has visited the site and verified that all energy efficiency and quality of housing commitments have been fulfilled. Also, prior to issuance of the final Credit Allocation Certifications, all fees owed by the General Partner to the Fund must be current.

ALLOCATION POLICIES (pages 33 through 52)

Developer's Fee (pages 39 and 42)

The following clarification was added to this subsection:

Some general comments on Developer's Fee:

- The Fund does not anticipate approving increases in the Developer's Fee above what is included in the property's initial Reservation Request. Consequently, the Developer's Fee will not be permitted to increase due to increased property costs.
- Also, the Fund may determine during underwriting that based upon the financial characteristics of a property, it cannot sustain the full amount of Developer's Fee requested, even though the amount requested is within the limits contained in the Manual. Prior to making any adjustments to the Developer's Fee, the Fund would discuss the reduction with the Applicant.

Cost Certification Requirements (pages 44 through 46)

Independent CPA Cost Certification and Examination (pages 45 and 46)

The following paragraph was added to this subsection:

The Fund reserves the right to require additional cost certification due diligence for developments with related parties at the developer, general contractor, or subcontractor level, or for any other developments that the Fund judges to be high risk. This additional due diligence may include audits of general contractors and/or sampling of subcontractor invoices to verify consistency with the developer cost certification.

* * * * * * * * *

Staff is requesting your approval of the Manual in substantially the form submitted.