



West Virginia Housing Development Fund

AUDITED FINANCIAL STATEMENTS

For the years ended June 30, 2019 and 2018

Audited Financial Statements

WEST VIRGINIA HOUSING DEVELOPMENT FUND

For the Years Ended June 30, 2019 and 2018

Audited Financial Statements

Independent Auditor’s Report	1
Management’s Discussion and Analysis (unaudited).....	3
Basic Financial Statements	
Proprietary Fund Type – Enterprise Fund	
Statements of Net Position	14
Statements of Revenues, Expenses, and Changes in Fund Net Position	15
Statements of Cash Flows	16
Fiduciary Fund Type – Welfare Benefit Plan	
Statements of Fiduciary Net Position.....	18
Statements of Changes in Fiduciary Net Position.....	19
Notes to Financial Statements, an integral part of the Financial Statements.....	20

Required Supplementary Information

Schedules of the Proportionate Share of the Net Pension Liability PERS	50
Schedules of Contributions to the PERS	50
Schedules of Changes in Net OPEB Liability and Related Ratios	
– Welfare Benefit Plan.....	51
Schedules of Contributions to the Welfare Benefit Plan.....	51
Schedules of Annual Rate of Return on Investments – Welfare Benefit Plan	51
Schedules of the Proportionate Share of the Net OPEB Liability	
– West Virginia Public Employees Insurance Agency Plan.....	52
Schedules of Contributions to the West Virginia Public Employees Insurance Agency Plan	52
Notes to Required Supplementary Information	53

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities (enterprise fund) and fiduciary fund type activities of the West Virginia Housing Development Fund (the Fund), a component unit of the State of West Virginia, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13, and the schedules of the proportionate share of the net pension liability PERS, the schedules of contributions to the PERS, the schedules of changes in net OPEB liability and related ratios - Welfare Benefit plan, the schedules of contributions to the Welfare Benefit plan, the schedules of annual rate of return on investments - Welfare Benefit plan, the schedules of the proportionate share of the net OPEB liability - West Virginia Public Employees Insurance Agency plan, the schedules of contributions to the West Virginia Public Employees Insurance Agency plan, and the accompanying notes to required supplementary information on pages 50 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
August 30, 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, 2019, the Fund has provided assistance for more than 123,000 housing or housing-related units.

The permanent staff of the Fund consists of 105 persons as of June 30, 2019, including professional staff members qualified in the fields of accounting, 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 11 bond issues totaling \$306,430,000 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, 2019, 2018 and 2017.

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, fees for the administration of federal financial awards programs, expenses, such as loan fees, program expenses, administrative expenses, and interest on outstanding debt. The Notes to the Financial Statements provide information that is essential to fully understand the data provided in the financial statements.

FINANCIAL HIGHLIGHTS

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

(Dollars in thousands)	<u>2019</u>	<u>2018</u>	<u>2017</u>
ASSETS			
Current assets	\$ 62,705	\$ 68,416	\$ 65,272
Noncurrent assets:			
Mortgage loans & Restricted mortgage loans, net of allowance for losses	670,827	640,514	648,321
Restricted Federal Program mortgage loans, net of allowance for losses	63,279	64,901	65,358
Restricted cash and cash equivalents	51,157	22,430	48,708
Investments & Restricted investments	69,477	75,667	81,632
Capital assets, net of depreciation	8,409	8,538	8,663
Other assets & Restricted other assets, net of allowance for losses	5,453	5,207	6,314
Total assets	<u>931,307</u>	<u>885,673</u>	<u>924,268</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pension and OPEB	<u>979</u>	<u>1,101</u>	<u>2,070</u>
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	17,968	16,244	16,044
Accrued interest payable	1,790	1,464	1,795
Bonds payable	26,940	27,280	35,715
Noncurrent liabilities:			
Bonds & notes payable, net	280,178	254,324	302,056
Other liabilities	68,733	69,975	70,986
Total liabilities	<u>395,609</u>	<u>369,287</u>	<u>426,596</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension and OPEB	<u>1,489</u>	<u>1,486</u>	<u>316</u>
NET POSITION			
Net investment in capital assets	8,409	8,538	8,663
Net position - Restricted	443,516	429,722	413,345
Net position - Unrestricted	83,263	77,741	77,418
TOTAL NET POSITION	<u>\$ 535,188</u>	<u>\$ 516,001</u>	<u>\$ 499,426</u>

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

Current assets

The decrease of \$5,711,000 (8.3%) in Current assets from 2018 to 2019 was primarily due to a decrease in cash of \$9,705,000 for program disbursements, an increase of \$1,466,000 in funds available for HOME program disbursements, an increase of \$920,000 in cash held for the Federal Home Loan Bank of Pittsburgh's Home4Good program, an increase of \$817,000 in the balance of Mortgage Loans Held for Sale, and an increase in Accounts Receivable of \$472,000 due from Federal program reimbursements.

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 funds available 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.

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

The increase of \$30,313,000 (4.7%) in Mortgage loans & Restricted mortgage loans, net of allowance for losses from 2018 to 2019 was primarily due to originations of \$102,218,000 exceeding repayments and loan prepayments of \$67,914,000 and foreclosures of \$3,853,000.

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*.

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) and National Housing Trust Fund (NHTF) mortgage loans. The fluctuations from year to year represent the net of HOME and NHTF program loan originations and repayments during the years presented.

Restricted cash and cash equivalents

The increase of \$28,727,000 (128.1%) in Restricted cash and cash equivalents from 2018 to 2019 was primarily due to an \$18,577,000 increase in the balance of funds available to purchase single family mortgage loans related to the timing of bond issuances and a \$9,856,000 increase due to the proceeds of long-term maturities reinvested short term.

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.

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)	2019	2018	2017
Balance at beginning of fiscal year	\$ 75,667	\$ 81,632	\$ 93,506
Sales and maturities	(7,881)	(33,730)	(44,318)
Purchases	-	30,438	35,995
Increase (Decrease) in fair value of investments and amortizations	1,691	(2,673)	(3,551)
Balance at end of fiscal year	\$ 69,477	\$ 75,667	\$ 81,632

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

The decrease of \$129,000 (1.5%) from 2018 to 2019 was due to depreciation of the Fund’s office building, equipment, and software in the amount of \$483,000, net of purchases of \$354,000.

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.

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

The increase of \$246,000 (4.7%) in Other assets and Restricted other assets, net of allowance for losses from 2018 to 2019 was primarily due to a \$510,000 increase in foreclosed properties, an increase of \$443,000 due from Federal program reimbursements and a \$687,000 decrease in land owned.

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.

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 \$1,724,000 (10.6%) in Accounts payable and other liabilities from 2018 to 2019 was primarily due to an increase of \$920,000 in cash held on behalf of the Federal Home Loan Bank of Pittsburgh to be used for its Home4Good program, an increase of \$510,000 in tax and insurance accounts held on behalf of the Fund’s various mortgagors, and an increase of \$138,000 in accrued expenses at year-end.

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.

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 2019 and 2018. See Note D – Bonds & Notes payable, current and noncurrent.

(Dollars in thousands)	2019	2018	2017
Balance at beginning of the fiscal year			
Bonds payable - current	\$ 27,280	\$ 35,715	\$ 33,975
Bonds payable - noncurrent	254,324	302,056	329,905
Debt issued: Housing Finance Bonds	60,000	-	39,505
Other Loan Programs note payable	-	250	250
Debt paid: Scheduled debt service	(23,553)	(28,241)	(27,196)
Early redemptions and refundings	(10,915)	(28,195)	(38,495)
Amortization of bond premiums	-	-	(173)
Other Loan Programs note payable allowance for losses ⁽¹⁾	(18)	19	-
Balance at end of the fiscal year	<u>\$ 307,118</u>	<u>\$ 281,604</u>	<u>\$ 337,771</u>
Bonds payable - current	\$ 26,940	\$ 27,280	\$ 35,715
Bonds & notes payable - noncurrent	280,178	254,324	302,056
Total bonds & notes payable	<u>\$ 307,118</u>	<u>\$ 281,604</u>	<u>\$ 337,771</u>

⁽¹⁾ See Note D - Bonds Payable

Other liabilities

The decrease of \$1,242,000 (1.8%) in Other liabilities from 2018 to 2019 was due to a decrease in the net pension liability of \$649,000, a decrease in the net OPEB liability of \$251,000, and a decrease of \$342,000 due to Federal Program mortgage repayments and prepayments exceeding mortgage loan originations.

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.

Total Net Position improved by \$16,575,000 (3.3%) from June 30, 2017 to June 30, 2018. From June 30, 2018 to June 30, 2019, Total Net Position improved by \$19,187,000 (3.7%) as the enterprise fund net position improved to \$535,188,000 at June 30, 2019.

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)	2019	2018	2017
REVENUES			
Interest on loans	\$ 30,212	\$ 29,676	\$ 31,106
Pass-through grant revenue	70,445	69,164	72,124
Fee revenue	8,143	6,774	6,905
Net investment earnings (non-operating)	6,241	877	(82)
Other	1,319	1,439	1,416
Total Revenues	116,360	107,930	111,469
EXPENSES			
Pass-through grant expense	70,445	69,164	72,124
Interest and debt expense (non-operating)	9,427	9,573	10,686
Loan fees expense	4,014	3,676	3,538
Program expenses, net	3,618	2,357	3,547
Administrative expenses, net	9,669	9,946	10,685
Total Expenses	97,173	94,716	100,580
INCOME BEFORE SPECIAL ITEM	19,187	13,214	10,889
SPECIAL ITEM - Transfer of operations ⁽¹⁾	-	4,469	-
CHANGE IN NET POSITION	19,187	17,683	10,889
NET POSITION AT BEGINNING OF YEAR	516,001	499,426	488,537
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE ⁽²⁾	-	(1,108)	-
NET POSITION AT BEGINNING OF YEAR, AS RESTATED	516,001	498,318	488,537
NET POSITION AT END OF YEAR	<u>\$ 535,188</u>	<u>\$ 516,001</u>	<u>\$ 499,426</u>

⁽¹⁾ See *Note I - Special item - transfer of operations*
⁽²⁾ Restated for implementation of GASB 75

Interest on loans

The increase in Interest on loans of \$536,000 (1.8%) from 2018 to 2019 was primarily due to an increase in mortgage loan balances from the prior year.

The decrease of \$1,430,000 (4.6%) from 2017 to 2018 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 increase of \$1,281,000 (1.9%) from 2018 to 2019 was primarily due to an increase of \$2,004,000 in Section 8 Housing Assistance Payments Program disbursements, an increase of \$782,000 in National Housing Trust Fund disbursements and a decrease of \$1,506,000 in HOME disbursements.

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 disbursements.

Fee revenue

The increase of \$1,369,000 (20.2%) in Fee revenue from 2018 to 2019 was primarily due to an increase of \$974,000 in Affordable Housing Fund fees earned related to the transfer of the WVAHTF to the Fund at the end of fiscal year 2018, a net increase of \$303,000 in mortgage loan processing fees, and an increase of \$68,000 in Low-Income Housing Tax credit fees earned.

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.

Net investment earnings

Net investment earnings increased \$959,000 (1,169.5%) from 2017 to 2018 and increased \$5,364,000 (611.6%) from 2018 to 2019 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 United States Generally Accepted Accounting Principles (US GAAP). As shown in the schedule below, investment earnings, adjusted for the unrealized gains or losses, increased 6.5% from 2017 to 2018 and increased 39.9% from 2018 to 2019 due to higher cash and investment balances and increases in rates throughout the year.

(Dollars in thousands)	June 30,		
	2019	2018	2017
Net investment income per operating statement	\$ 6,241	\$ 877	\$ (82)
Adjustments for unrealized (gain) loss on fair value of securities	(1,493)	2,518	3,270
Interest earned on investments	\$ 4,748	\$ 3,395	\$ 3,188
% Increase from prior year	39.9%	6.5%	

Other revenues

The decrease of \$120,000 (8.3%) in Other revenues from 2018 to 2019 was primarily due to a decrease in gains on sale of mortgage loans of \$125,000.

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.

Interest and debt expense

The \$146,000 (1.5%) decrease in Interest and debt expense from 2018 to 2019 was primarily due to the timing of \$60,000,000 in bond issuances during 2019, \$34,468,000 in bond redemptions and debt service and a decrease in the average interest rate of bonds outstanding.

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 issuance during 2018.

Loan fees expense

The \$338,000 (9.2%) increase in *Loan fees expense* from 2018 to 2019 was primarily due to an increase in loan originations, which resulted in an increase in loan origination fees of \$297,000 and an increase in service fees on loans of \$35,000.

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.

Program expenses, net

The \$1,261,000 (53.5%) increase in *Program expenses, net* from 2018 to 2019 was primarily due to an increase of \$704,000 in cost of issuance expenses, a \$360,000 increase in bad debt expense, an increase of \$279,000 in Affordable Housing Fund disbursements, a \$273,000 increase in Special Needs disbursements, a \$216,000 decrease in losses on sale of foreclosed properties, and a decrease of \$194,000 in servicing expenses.

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.

Administrative expenses, net

The \$277,000 (2.8%) decrease in *Administrative expenses, net* from 2018 to 2019 was primarily due to an increase of \$401,000 in various administrative reimbursements, an increase of \$371,000 in salary expenses, an increase in computer-related expenses of \$60,000, a decrease in OPEB related expenses of \$58,000 and a net decrease in the expense related to the Fund's proportionate share of the net pension liability of \$246,000.

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.

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.

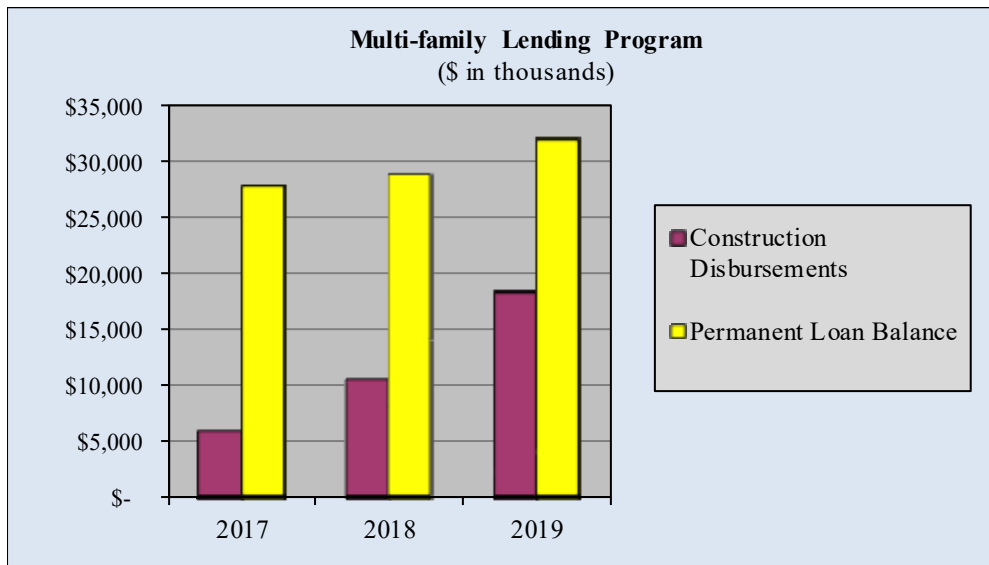
The Bond Programs mortgage loan balances decreased from fiscal year 2017 through fiscal year 2019 as follows:

(Dollars in thousands)			
	2019	June 30, 2018	2017
Beginning Balance	\$ 566,031	\$ 575,325	\$ 597,007
Repayments/Prepayments	(53,884)	(59,425)	(65,361)
Foreclosures	(3,746)	(3,735)	(4,857)
Originations	77,922	53,866	48,536
Ending Balance	<u>\$ 586,323</u>	<u>\$ 566,031</u>	<u>\$ 575,325</u>
% Increase (Decrease) from prior year	3.6%	(1.6%)	

The Fund's single family Bond Program loans consist of 30-year fixed rate loans and no sub-prime loans. The median income of Fund single family borrowers is \$48,672 as of June 30, 2019. This income level tends to be impacted quicker than an average borrower during economic declines. Despite the economic downturn in the State, the Fund has not seen a significant increase in foreclosures and delinquencies. For the years 2017 through 2019 the Fund's single family foreclosure and delinquency rates have remained stable. 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					
<u>Months Past Due</u>	WV Housing Development Fund			WV*	USA*
	As of June 30,			As of	
	2019	2018	2017	March 31, 2019	
One	3.57%	3.58%	3.94%	3.21%	2.27%
Two	1.05%	1.16%	1.11%	0.96%	0.73%
Three	0.35%	0.44%	0.46%	1.17%	1.04%
Three +	1.40%	1.44%	1.66%	2.10%	1.96%
In foreclosure	0.32%	0.29%	0.26%	0.93%	0.92%
*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 multi-family rental housing. Resources for this initiative are provided from Other Loan Programs, HOME and the National Housing Trust Fund and the Low-Income Housing Tax Credit Program. Permanent loans financed from Other Loan Programs often carry United States Department of Agriculture (USDA) 538 loan guarantees. The Fund expects to continue its focus on financing rental housing into fiscal 2020 and future years.



Interest rates on new single family bond loans originated in fiscal year 2019 have averaged approximately 4.72%. Interest rates on new multi-family permanent loans originated in fiscal year 2019 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 multi-family loans, the average interest rate on loans outstanding has declined. The average loan interest rate listed below shows the average for fiscal years 2017 through 2019.

<u>Average Loan Interest Rate</u>	
June 30, 2017	4.68%
June 30, 2018	4.64%
June 30, 2019	4.54%

Investments

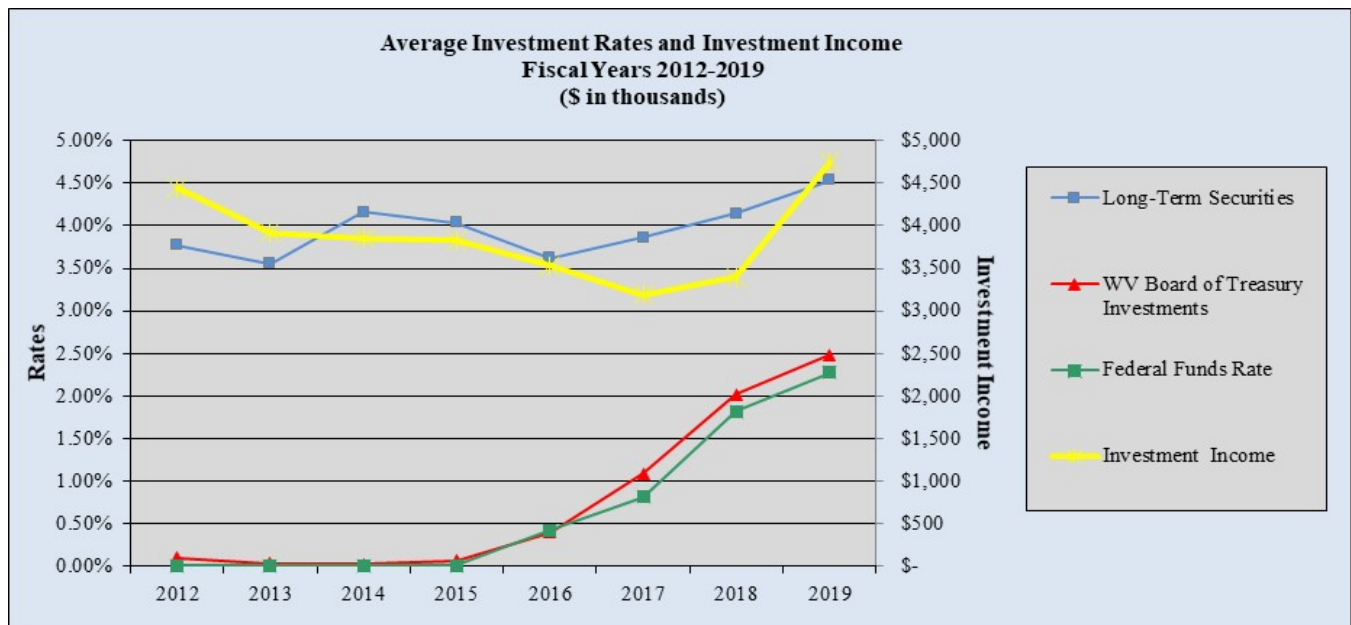
The Fund invests cash, not required for immediate disbursement, as permitted by the Act, the bond resolutions, and the Board approved Investment Policy. Funds related to the Bond Programs capital reserves and the Bond Insurance Account are primarily invested in long-term United States agency securities 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 have 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 six additional times during fiscal year 2017 and fiscal year 2018 ranging from 1.00% to 2.00%. During fiscal year 2019, the Federal Reserve increased the rate two additional times to the current rate ranging from 2.00% to 2.50%. 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.

Investment earnings increased 6.5% from 2017 to 2018, net of unrealized gains or losses, and increased 39.9% from 2018 to 2019, net of unrealized gains or losses. The increase in 2019 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 2019:



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.

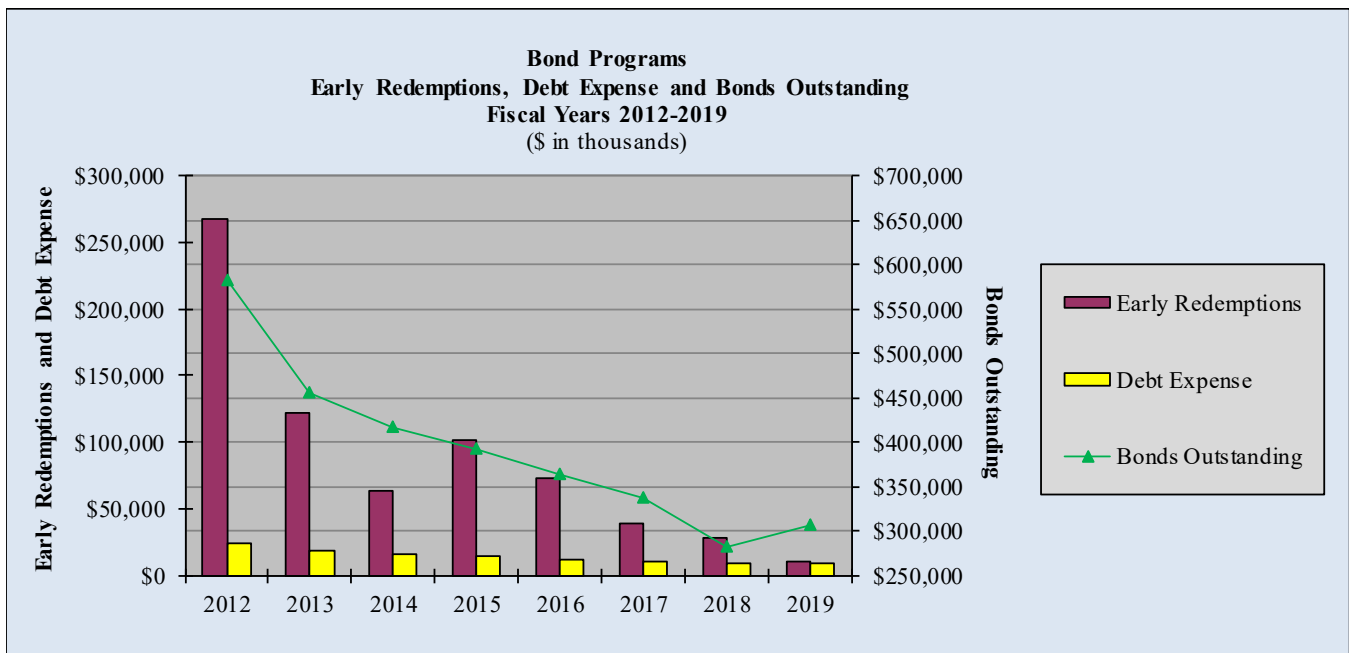
When bonds are issued from the bond volume allocation, known as “new money” bonds, certain repayments and prepayments of mortgage loans made from these proceeds may be “recycled” into additional mortgage loans for ten years. The Fund uses recycling to supplement its bond issues by using prepayments for 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 2020 the Fund expects to continue to recycle mortgage loan repayments from its bond issues when it is economically prudent to do so.

The Fund’s Movin’ Up program is 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 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 and provides the borrower with down payment and closing cost assistance.

During fiscal years 2017, 2018 and 2019, the Fund redeemed or refunded \$38,495,000, \$28,195,000 and \$10,915,000 in bonds, respectively. In addition, 2017 redemptions included the refunding of bonds in the amount of \$14,505,000. There were no bonds refunded in 2018 or 2019. By actively redeeming bonds, the Fund has offset the impact of reduced mortgage loan balances and rates.

Debt expense was \$10,686,000, \$9,573,000 and \$9,427,000 in fiscal years 2017, 2018 and 2019, respectively. Debt expense decreased in 2018 as compared to 2017 due to lower bond balances as a result of redemptions exceeding new debt issuances and interest savings resulting from refundings of high rate bonds in 2017. Debt expense decreased in 2019 as compared to 2018 due to \$34,468,000 in bond redemptions and debt service, a decrease in the average interest rate of bonds outstanding and the timing of \$60,000,000 in bond issuances during 2019.

By actively redeeming bonds, the Fund continues to offset the impact of reduced mortgage loan balances and rates. The following chart illustrates early bond redemptions, debt expense and bonds outstanding in the Bond Programs.



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. The Fund is the largest loan servicer in the State with serviced loans of \$1.2 billion. Servicing fee income in the amount of \$2,972,000 represents 6.47% of the Fund's total revenues, net of pass through grant revenue, for the fiscal year ended June 30, 2019.

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 \$11,000 (.2%) from June 30, 2017 to June 30, 2018. From June 30, 2018 to June 30, 2019, Net position restricted for other postemployment benefits improved by \$141,000 (2.6%) to \$5,585,000 at June 30, 2019.

The fiduciary fund financial statements can be found on pages 18 and 19 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.

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

	June 30,	
	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents-- (Notes A and C)	\$ 13,239	\$ 21,097
Accrued interest on loans	413	312
Accounts receivable and other assets, net of allowance for losses-- (Note A)	1,761	939
Mortgage loans held for sale-- (Note A)	817	-
Restricted cash and cash equivalents-- (Notes A and C)	43,413	43,095
Restricted accrued interest on loans	2,342	2,289
Restricted accrued interest on investments	720	684
Total current assets	<u>62,705</u>	<u>68,416</u>
Noncurrent assets:		
Mortgage loans, net of allowance for losses-- (Note A)	68,601	58,106
Capital assets, net of depreciation-- (Note A)	8,409	8,538
Restricted cash and cash equivalents-- (Notes A and C)	51,157	22,430
Restricted investments-- (Notes A and C)	69,477	75,667
Restricted mortgage loans, net of allowance for losses-- (Note A)	665,505	647,309
Restricted other assets, net of allowance for losses-- (Note A)	5,453	5,207
Total noncurrent assets	<u>868,602</u>	<u>817,257</u>
Total assets	<u>931,307</u>	<u>885,673</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pension and OPEB-- (Notes A, F and H)	<u>979</u>	<u>1,101</u>
LIABILITIES		
Current liabilities:		
Accounts payable and other liabilities-- (Note A)	17,968	16,244
Accrued interest payable	1,790	1,464
Bonds payable-- (Note D)	26,940	27,280
Total current liabilities	<u>46,698</u>	<u>44,988</u>
Noncurrent liabilities:		
Other liabilities-- (Notes A, F and H)	68,733	69,975
Bonds & notes payable-- (Note D)	280,178	254,324
Total noncurrent liabilities	<u>348,911</u>	<u>324,299</u>
Total liabilities	<u>395,609</u>	<u>369,287</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension and OPEB-- (Notes A, F and H)	<u>1,489</u>	<u>1,486</u>
NET POSITION		
Restricted for debt service	369,969	357,312
Restricted by state statute	73,547	72,410
Net investment in capital assets	8,409	8,538
Unrestricted	83,263	77,741
Total net position	<u>\$ 535,188</u>	<u>\$ 516,001</u>

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

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

	Year Ended June 30,	
	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Interest on loans	\$ 30,212	\$ 29,676
Pass-through grant revenue-- (Note A)	70,445	69,164
Fee revenue-- (Note A)	8,143	6,774
Other-- (Note A)	1,319	1,439
	<u>110,119</u>	<u>107,053</u>
OPERATING EXPENSES		
Pass-through grant expense-- (Note A)	70,445	69,164
Loan fees expense-- (Note A)	4,014	3,676
Program expenses, net-- (Note A)	3,618	2,357
Administrative expenses, net-- (Note A)	9,669	9,946
	<u>87,746</u>	<u>85,143</u>
OPERATING INCOME	22,373	21,910
NON-OPERATING - FINANCING AND INVESTING (EXPENSES) REVENUES		
Investment earnings:		
Interest	4,748	3,395
Net decrease (increase) in the fair value of investments	1,493	(2,518)
Net investment earnings	6,241	877
Interest and debt expense	(9,427)	(9,573)
	<u>(3,186)</u>	<u>(8,696)</u>
INCOME BEFORE SPECIAL ITEM	19,187	13,214
SPECIAL ITEM		
Transfer of operations--(Note I)	-	4,469
CHANGE IN NET POSITION	<u>19,187</u>	<u>17,683</u>
NET POSITION AT BEGINNING OF YEAR	<u>516,001</u>	<u>498,318</u>
NET POSITION AT END OF YEAR	<u>\$ 535,188</u>	<u>\$ 516,001</u>

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

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

	Year Ended June 30,	
	<u>2019</u>	<u>2018</u>
CASH FLOWS USED IN OPERATING ACTIVITIES		
Receipts from lending activities	\$ 103,495	\$ 110,039
Receipts from other operating activities	9,405	8,185
Receipts from escrows and advance activities ⁽¹⁾	72,596	73,643
Disbursements from escrows and advance activities ⁽¹⁾	(71,209)	(73,825)
Receipts for federal lending activities	2,664	4,347
Receipts for federal activities	65,438	63,434
Disbursements for federal activities	(65,438)	(63,433)
Purchase of mortgage loans	(105,815)	(74,823)
Purchase of mortgage loans held for sale	(29,716)	(38,387)
Sales of mortgage loans	28,899	38,503
Payments to employees for salaries and benefits	(6,681)	(7,092)
Payments to vendors	(11,047)	(8,053)
Net cash (used in) provided by operating activities	<u>(7,409)</u>	<u>32,538</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Net proceeds from bonds and notes	60,000	250
Retirement of bonds and notes	(34,468)	(56,436)
Interest paid	(9,101)	(9,904)
Special item - transfer of operations ⁽²⁾	-	4,114
Net cash provided by (used in) noncapital financing activities	<u>16,431</u>	<u>(61,976)</u>
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment and furnishings	(323)	(274)
Net cash used in capital and related financing activities	<u>(323)</u>	<u>(274)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	7,881	33,730
Purchase of investments	-	(30,438)
Net investment earnings	4,607	3,474
Net cash provided by investing activities	<u>12,488</u>	<u>6,766</u>
Net increase (decrease) in cash and cash equivalents	21,187	(22,946)
Cash and cash equivalents at beginning of year	86,622	109,568
Cash and cash equivalents at end of year	<u>\$ 107,809</u>	<u>\$ 86,622</u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 13,239	\$ 21,097
Restricted cash and cash equivalents - current	43,413	43,095
Restricted cash and cash equivalents - noncurrent	51,157	22,430
	<u>\$ 107,809</u>	<u>\$ 86,622</u>

⁽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,	
	<u>2019</u>	<u>2018</u>
Reconciliation of operating income to net cash (used in) provided by operating activities:		
Operating income	\$ 22,373	\$ 21,910
Adjustments to reconcile operating income to net cash provided by operating activities:		
Pension expense	71	317
OPEB expense (credit)	39	(21)
Change in assets and liabilities:		
Accrued interest on loans	(101)	(46)
Mortgage loans held for sale	(817)	116
Other assets	(3)	780
(Recovery of) Allowance for losses on other assets	(312)	(270)
Restricted accrued interest on loans	(53)	114
Restricted other assets	1,829	745
Allowance for (recovery of) losses on restricted other assets	(2,075)	362
Mortgage loans	(10,395)	(1,699)
Allowance for losses on mortgage loans	(100)	98
Restricted mortgage loans	(20,762)	7,236
Allowance for losses on restricted mortgage loans	2,566	3,003
Accounts payable	1,613	188
Other liabilities, Federal Programs	(342)	587
Deferred outflows of resources - pension and OPEB contributions	(629)	(654)
Other liabilities, OPEB	(311)	(228)
Net cash (used in) provided by operating activities	<u>\$ (7,409)</u>	<u>\$ 32,538</u>
Noncash investing and financing activities:		
Increase (Decrease) in fair value of investments	\$ 1,608	\$ (2,843)
Net amortization of premiums/discounts on investments	85	170
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,	
	<u>2019</u>	<u>2018</u>
ASSETS		
Restricted cash and cash equivalents	\$ 316	\$ 235
Restricted accrued interest on investments	28	23
Restricted investments:		
U.S. Treasury securities	3,014	2,983
Certificates of deposit	2,242	2,218
Total restricted investments	<u>5,256</u>	<u>5,201</u>
Total restricted assets	<u>5,600</u>	<u>5,459</u>
LIABILITIES		
Current liabilities:		
Accounts payable and other liabilities	<u>15</u>	<u>15</u>
Total current liabilities	<u>15</u>	<u>15</u>
Total liabilities	<u>15</u>	<u>15</u>
NET POSITION RESTRICTED FOR OTHER POSTEMPLOYMENT BENEFITS		
	<u>\$ 5,585</u>	<u>\$ 5,444</u>

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

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

	Year Ended June 30,	
	<u>2019</u>	<u>2018</u>
ADDITIONS		
Contributions - Employer	\$ 311	\$ 228
Investment income:		
Interest	118	85
Net increase (decrease) in fair value of investments	54	(39)
Net investment income	<u>172</u>	<u>46</u>
Total additions	483	274
DEDUCTIONS		
Benefits	311	228
Administrative expenses	31	35
Total deductions	<u>342</u>	<u>263</u>
NET INCREASE IN NET POSITION	141	11
NET POSITION RESTRICTED FOR OTHER POSTEMPLOYMENT BENEFITS		
BEGINNING OF YEAR	<u>5,444</u>	<u>5,433</u>
END OF YEAR	<u>\$ 5,585</u>	<u>\$ 5,444</u>

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

WEST VIRGINIA HOUSING DEVELOPMENT FUND
NOTES TO FINANCIAL STATEMENTS, AN INTEGRAL PART OF THE FINANCIAL STATEMENTS
June 30, 2019

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. 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.

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 (US 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, 2019			June 30, 2018		
	Balance	Allowance	Net	Balance	Allowance	Net
Accounts receivable and other Assets:						
Accounts receivable	\$ 1,370	\$ (6)	\$ 1,364	\$ 847	\$ (7)	\$ 840
Land	117	(58)	59	117	(58)	59
Foreclosed property	338	-	338	352	(312)	40
Total	<u>\$ 1,825</u>	<u>\$ (64)</u>	<u>\$ 1,761</u>	<u>\$ 1,316</u>	<u>\$ (377)</u>	<u>\$ 939</u>

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

Enterprise fund Restricted cash and cash equivalents represents monies the Fund holds on behalf of others, restricted by the Act or by the bond resolutions. Included in this line item are tax and insurance escrows held on behalf of the Fund’s various mortgagors and payments collected on mortgages for which the Fund acts as servicer only. The Fund is obligated to expend these monies on escrowed items or remit them to the appropriate investors in the case of mortgage loans serviced for the benefit of others. Also included in Restricted cash and cash equivalents are federal and other housing program funds for which the Fund acts as grantee or agent. The total funds held on behalf of others were \$18,279,000 at June 30, 2019 and \$15,441,000 at June 30, 2018. 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, 2019			June 30, 2018		
	Balance	Allowance	Net	Balance	Allowance	Net
Unrestricted Mortgage Loans:						
General Account	\$ 3,362	\$ (1,945)	\$ 1,417	\$ 3,182	\$ (1,997)	\$ 1,185
Other Loan Programs	80,815	(13,631)	67,184	70,599	(13,678)	56,921
Total	<u>\$ 84,177</u>	<u>\$ (15,576)</u>	<u>\$ 68,601</u>	<u>\$ 73,781</u>	<u>\$ (15,675)</u>	<u>\$ 58,106</u>

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

(Dollars in thousands)	June 30, 2018	Additions	Deletions	June 30, 2019
Capital assets, not being depreciated:				
Land	\$ 1,810	\$ -	\$ -	\$ 1,810
Total capital assets, not being depreciated	<u>1,810</u>	<u>-</u>	<u>-</u>	<u>1,810</u>
Capital assets, being depreciated:				
Buildings	7,729	81	-	7,810
Equipment and furnishings	1,308	197	(18)	1,487
Computer software	738	76	-	814
Total capital assets, being depreciated	<u>9,775</u>	<u>354</u>	<u>(18)</u>	<u>10,111</u>
Less accumulated depreciation for:				
Buildings	(1,340)	(195)	-	(1,535)
Equipment and furnishings	(1,230)	(112)	18	(1,324)
Computer software	(477)	(176)	-	(653)
Total accumulated depreciation	<u>(3,047)</u>	<u>(483)</u>	<u>18</u>	<u>(3,512)</u>
Total capital assets being depreciated, net	<u>6,728</u>	<u>(129)</u>	<u>-</u>	<u>6,599</u>
Total capital assets, net	<u>\$ 8,538</u>	<u>\$ (129)</u>	<u>\$ -</u>	<u>\$ 8,409</u>

(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	<u>1,810</u>	<u>-</u>	<u>-</u>	<u>1,810</u>
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	<u>9,500</u>	<u>275</u>	<u>-</u>	<u>9,775</u>
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	<u>(2,647)</u>	<u>(400)</u>	<u>-</u>	<u>(3,047)</u>
Total capital assets being depreciated, net	<u>6,853</u>	<u>(125)</u>	<u>-</u>	<u>6,728</u>
Total capital assets, net	<u>\$ 8,663</u>	<u>\$ (125)</u>	<u>\$ -</u>	<u>\$ 8,538</u>

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

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

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

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

(Dollars in thousands)	June 30, 2019			June 30, 2018		
	Balance	Allowance	Net	Balance	Allowance	Net
Restricted Mortgage Loans:						
General Account	\$ 472	\$ (471)	\$ 1	\$ 486	\$ (484)	\$ 2
Other Loan Programs	695	(264)	431	647	(246)	401
Land Development	3,418	(1,654)	1,764	3,384	(1,629)	1,755
Affordable Housing Fund	1,869	(1,518)	351	2,008	(1,629)	379
Bond Insurance Account	13,950	(594)	13,356	14,457	(617)	13,840
Bond Programs	596,117	(9,794)	586,323	575,748	(9,717)	566,031
Federal Programs	150,459	(87,180)	63,279	149,488	(84,587)	64,901
Total	<u>\$ 766,980</u>	<u>\$ (101,475)</u>	<u>\$ 665,505</u>	<u>\$ 746,218</u>	<u>\$ (98,909)</u>	<u>\$ 647,309</u>

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

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

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

(Dollars in thousands)	June 30, 2019			June 30, 2018		
	Balance	Allowance	Net	Balance	Allowance	Net
Restricted other assets:						
Accounts receivable	\$ 553	\$ -	\$ 553	\$ 129	\$ -	\$ 129
Land	2,249	(2,049)	200	2,936	(2,049)	887
Foreclosed property	5,005	(305)	4,700	6,571	(2,380)	4,191
Total	<u>\$ 7,807</u>	<u>\$ (2,354)</u>	<u>\$ 5,453</u>	<u>\$ 9,636</u>	<u>\$ (4,429)</u>	<u>\$ 5,207</u>

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

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

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

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

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

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

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

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

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

The Fund services all loans in its portfolio as well as loans on behalf of others totaling approximately \$1,188,500,000 and \$1,171,000,000 at June 30, 2019 and 2018, respectively. Of this total, the portfolio serviced by the Fund on behalf of others approximated \$335,763,000 and \$349,719,000 at June 30, 2019 and 2018, 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, 2019, the Fund has committed \$36,501,000 from Other Loan Programs for various loans or projects and \$2,411,000 from Other Loan Programs for the purchase of secondary market loans. In addition, the Fund has committed to sell loans to FNMA of \$2,067,000 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 2020 administrative budget of \$12,811,300 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 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)	Weighted Avg Maturity	June 30, 2019		June 30, 2018	
		Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Reported at cost					
Demand Deposits, Money Market Funds	1 day	\$ 84,636	\$ 84,636	\$ 50,056	\$ 50,056
Mortgages held for investment purposes	21.24 years	15,418	15,418	15,757	15,757
Collateralized CDs	N/A	-	-	2,000	2,000
FDIC Insured CDs	149 days	7,300	7,300	10,700	10,700
WVBOTI deposits	1 day	23,173	23,173	25,639	25,639
Total		<u>130,527</u>	<u>130,527</u>	<u>104,152</u>	<u>104,152</u>
Reported at estimated fair value					
Fannie Mae MBS pools	11.87 years	792	856	1,083	1,168
Federal agency securities	6.61 years	42,537	50,370	55,401	61,587
U.S. Treasury securities	1.92 years	10,037	10,951	10,207	11,139
Total		<u>53,366</u>	<u>62,177</u>	<u>66,691</u>	<u>73,894</u>
Total investments, including cash equivalents		<u>\$ 183,893</u>	<u>\$ 192,704</u>	<u>\$ 170,843</u>	<u>\$ 178,046</u>

The Fund's fiduciary fund actively invests cash in conformity with the Act and the Board-approved Investment Policy. Permitted investments include a variety of securities and obligations such as 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)	Weighted Avg Maturity	June 30, 2019		June 30, 2018	
		Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Reported at cost					
Demand Deposits	1 day	\$ 316	\$ 316	\$ 235	\$ 235
Total		<u>316</u>	<u>316</u>	<u>235</u>	<u>235</u>
Reported at estimated fair value					
U.S. Treasury securities	1.28 years	2,993	3,014	2,993	2,983
Certificates of deposit	1.29 years	2,248	2,242	2,248	2,218
Total		<u>5,241</u>	<u>5,256</u>	<u>5,241</u>	<u>5,201</u>
Total investments, including cash equivalents		<u>\$ 5,557</u>	<u>\$ 5,572</u>	<u>\$ 5,476</u>	<u>\$ 5,436</u>

Interest Rate Risk - Enterprise fund. The Investment Policy limits the weighted average maturity of various fund types as shown in the following table. 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, 2019
Reserve Funds	30 years	6 years
Bond Insurance Funds	15 years	6 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 Investment Policy limits the weighted average maturity of all funds as shown in the following table. The Act does not provide for investment maturity limits. Fiduciary fund investments are managed at an appropriate average duration based on current interest rate environments.

	Permitted Maturity Limit	Average Maturity as of June 30, 2019
Fiduciary Funds	4 years	2 years

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, 2019, 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’s Investment Policy limits investments to 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 table below. The Act does not limit the percentage of investments in any permitted investment type.

As of June 30, 2019			
(Dollars in thousands)			
	Maximum of Portfolio	Invested Funds	% of Total Investment
Direct Federal Obligations	100%	\$ 10,037	6%
Federal Agency Obligations	90%	43,329	26%
Federally Guaranteed Obligations	100%	-	0%
Demand Deposits	30%	12,127	7%
Collateralized CDs	\$75,000	-	0%
CDARS FDIC Insured CDs	\$65,000	7,300	5%
West Virginia Obligations	15%	-	0%
ICS FDIC Insured Demand Deposit	\$40,000	-	0%
ICS FDIC Insured Savings Deposits	\$100,000	56,724	34%
Mortgages Held for Investment Purposes	30%	15,418	9%
Money Market Funds	25%	951	1%
WVBOTI deposits	\$40,000	19,729	12%
TOTAL		<u>\$ 165,615</u>	<u>100%</u>
Funds Held for Others *	N/A	18,278	
TOTAL INVESTED FUNDS		<u>\$ 183,893</u>	

* Funds held for others not applicable to limit calculations.

Concentration of Credit Risk – Fiduciary 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 table below. The Act does not limit the percentage of investments in any permitted investment type.

As of June 30, 2019			
(Dollars in thousands)			
	Maximum of Portfolio	Invested Funds	% of Total Investment
Demand Deposits	30%	\$ 316	6%
Direct Federal Obligations	90%	-	0%
Federal Agency Obligations	90%	2,993	54%
Federally Guaranteed Obligations	90%	-	0%
FDIC Insured CDs	50%	2,248	40%
TOTAL INVESTED FUNDS		<u>\$ 5,557</u>	<u>100%</u>

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 fiduciary fund Investment Policy further limits the securities permitted as collateral for amounts in excess of FDIC insurance to direct federal or federally guaranteed obligations or federal agency obligations.

The enterprise fund cash, including escrow funds, had a carrying value of \$84,636,000 and \$50,056,000 as of June 30, 2019 and 2018, respectively. Bank balances approximated \$86,219,000 and \$50,864,000 as of June 30, 2019 and 2018, respectively, of which approximately \$73,581,000 and \$31,552,000 was covered by federal depository insurance as of June 30, 2019 and 2018, respectively, and \$11,687,000 and \$19,038,000 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, 2019 and 2018, respectively. Also included in the bank balances above are trust account money market fund balances of \$951,000 and \$274,000 as of June 30, 2019 and 2018, respectively, which are not subject to custodial credit risk.

The fiduciary fund cash had a carrying value of \$316,000 and \$235,000 as of June 30, 2019 and 2018, respectively. Bank balances approximated \$316,000 and \$235,000 as of June 30, 2019 and 2018, 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,	
	2019	2018
<u>Level 1 inputs</u>		
Federal agency securities	\$ 50,370	\$ 61,587
U.S. Treasury securities	10,951	11,139
Total	61,321	72,726
<u>Level 2 inputs</u>		
Fannie Mae MBS pools	856	1,168
Total	856	1,168
Total investments, reported at estimated fair value	<u>\$ 62,177</u>	<u>\$ 73,894</u>

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

(Dollars in thousands)	June 30,	
	2019	2018
<u>Level 1 inputs</u>		
U.S. Treasury securities	\$ 3,014	\$ 2,983
Certificates of deposit	2,242	2,218
Total investments, reported at estimated fair value	<u>\$ 5,256</u>	<u>\$ 5,201</u>

Fair value measurements for investments classified as Level 2, Fannie Mae MBS pools, are valued using matrix pricing sources that provide a pricing indication from market transactions for similar or identical assets.

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,	
	2019	2018
Cash and cash equivalents	\$ 13,239	\$ 21,097
Current restricted cash and cash equivalents	43,413	43,095
Noncurrent restricted cash and cash equivalents	51,157	22,430
Restricted investments	69,477	75,667
Plus mortgages held for investment purposes	15,418	15,757
Total Investments and cash equivalents	<u>\$ 192,704</u>	<u>\$ 178,046</u>
Less unrealized gains	8,811	7,203
Total Invested Funds	<u>\$ 183,893</u>	<u>\$ 170,843</u>

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

(Dollars in thousands)	June 30,	
	2019	2018
Restricted cash and cash equivalents	\$ 316	\$ 235
Restricted investments	5,256	5,201
Total Investments and cash equivalents	<u>\$ 5,572</u>	<u>\$ 5,436</u>
Less unrealized gains (losses)	15	(40)
Total Invested Funds	<u>\$ 5,557</u>	<u>\$ 5,476</u>

The enterprise fund has an unrealized gain on investments of \$8,811,000 and \$7,203,000 as of June 30, 2019 and 2018, respectively. This represents an increase in unrealized gain on investments of \$1,608,000 and a decrease in unrealized gain on investment of \$2,845,000 from June 30, 2018 and 2017, respectively. In connection with the unrealized gain, \$859,000 and \$746,000 is recorded as a liability for related investment earnings as of June 30, 2019 and 2018, 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, 2019 and 2018 and to properly reflect the rebate liability, a \$1,494,000 increase and \$2,518,000 decrease was recorded in *Net investment earnings* in the Statements of Revenues, Expenses, and Changes in Fund Net Position for year ended June 30, 2019 and 2018, respectively.

The fiduciary fund has an unrealized gain on investments of \$15,000 and an unrealized loss on investments of \$40,000 as of June 30, 2019 and June 30, 2018, respectively. This represents an increase in unrealized gain on investments of \$54,000 and a decrease of \$39,000 from the June 30, 2018 and 2017, respectively. To adjust the fair value of investments to reflect this unrealized gain at June 30, 2019 and 2018 a \$54,000 increase and a \$39,000 decrease was recorded in *Net investment income* in the Statements Changes in Fiduciary Net Position for year ended June 30, 2019 and 2018, 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 70.93% 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. 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. Principal and interest paid on bonds and notes payable for the years ended June 30, 2019 and 2018 was \$43,569,000 and \$66,340,000, respectively. Total pledged revenues in 2019 and 2018 were \$85,783,000 and \$91,698,000, 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, 2019, *Bonds & notes payable - noncurrent* includes a \$912,000 note payable, net of a \$225,000 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 documents. 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, 2019 and 2018, the Fund redeemed or refunded \$10,915,000 and \$28,195,000 of bonds, respectively, at redemption prices that approximated their carrying value.

The following tables summarize bond and note activity from 2018 to 2019 and 2017 to 2018, respectively.

(Dollars in thousands)			
	Bonds Payable	Bonds & Notes	Bonds & Notes
	Current	Payable	Payable
		Noncurrent	Total
Outstanding Balance, June 30, 2018	\$ 27,280	\$ 254,324	\$ 281,604
Debt Issued	-	60,000	60,000
Debt Paid	(23,385)	(168)	(23,553)
Early Redemptions/Refundings	(3,895)	(7,020)	(10,915)
Note Payable allowance for losses	-	(18)	(18)
Reclassification from noncurrent to current	26,940	(26,940)	-
Outstanding Balance, June 30, 2019	<u>\$ 26,940</u>	<u>\$ 280,178</u>	<u>\$ 307,118</u>

(Dollars in thousands)			
	Bonds Payable	Bonds & Notes	Bonds & Notes
	Current	Payable	Payable
		Noncurrent	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	<u>\$ 27,280</u>	<u>\$ 254,324</u>	<u>\$ 281,604</u>

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

	Original Amount Authorized	Outstanding at June 30,	
		2019	2018
(Dollars in thousands)			
<u>HOUSING FINANCE BOND PROGRAM</u>			
2011 Series A (3.222% to 3.622%), due 2019-2021	\$ 50,000	\$ 13,775	\$ 18,970
2013 Series A (1.78% to 3.20%) due 2019-2028	21,000	13,670	14,925
2013 Series B (2.85% to 4.35%) due 2019-2025	47,500	11,455	15,985
2014 Series A,B (2.10% to 3.95%), due 2019-2034	48,865	30,680	34,770
2015 Series A,B (1.90% to 3.80%), due 2019-2034	50,660	32,605	36,330
2015 Series C,D (1.90% to 4.10%), due 2019-2038	70,060	51,930	57,440
2017 Series A,B (1.65% to 4.125%), due 2019-2045	39,505	35,690	37,700
2018 Series A (1.65% to 3.90%), due 2019-2048	25,000	24,545	-
2019 Series A (1.65% to 3.95%), due 2020-2049	35,000	35,000	-
<u>GENERAL NEW ISSUE BOND PROGRAM</u>			
2011 A (2.32% to 3.80%), due 2019-2041	51,850	24,150	27,730
2012 A (2.40% to 3.35%), due 2019-2041	66,770	32,930	36,880
Total bonds payable		<u>306,430</u>	<u>280,730</u>
<u>OTHER LOAN PROGRAMS</u>			
Notes Payable (0.00%), net of allowance for losses ⁽¹⁾	2,000	688	874
Total bonds & notes payable		<u>\$ 307,118</u>	<u>\$ 281,604</u>

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

Total bonds payable does not include \$6,770,000 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, 2019 and thereafter to maturity.

Bonds				
Maturing During Year Ending June 30:	Principal	Interest	Total	
(Dollars in thousands)				
2020	(1) \$ 26,940	\$ 9,709	\$ 36,649	
2021	25,665	8,897	34,562	
2022	23,160	8,190	31,350	
2023	19,340	7,584	26,924	
2024	18,020	7,043	25,063	
2025-2029	70,180	28,023	98,203	
2030-2034	63,545	16,702	80,247	
2035-2039	34,995	7,512	42,507	
2040-2044	17,255	2,926	20,181	
2045-2049	7,010	709	7,719	
2050	320	6	326	
	<u>\$ 306,430</u>	<u>\$ 97,301</u>	<u>\$ 403,731</u>	

⁽¹⁾ Includes the anticipated redemptions of General New Issue Bond Program Bonds in the amount of \$865,000 and Housing Finance Bonds in the amount of \$1,500,000.

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 \$333,000 and \$353,000 as of June 30, 2019 and June 30, 2018, respectively. 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 \$859,000 and \$746,000 established as a liability at June 30, 2019 and 2018, 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, 2019, 40.59% of the Fund's single family Bond Program loans were VA, USDA Rural Development, or FHA guaranteed. Another 30.34% 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 hired before July 1, 2015 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. Employees hired on or after July 1, 2015 may retire at age 62 with ten years of 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 employees hired on or after July 1, 2015, this age increases to 64.

Contributions. Contributions as a percentage of payroll for members are established by statutes, subject to legislative limitations and are not actuarially determined. Contributions as a percentage of payroll for employees are established by the CPRB. Current funding policy requires employer contributions of 10.0%, 11.0% and 12.0% for the years ended June 30, 2019, 2018 and 2017, 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 of annual earnings 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 \$565,000, \$588,000, and \$622,000 for the fiscal years ended June 30, 2019, 2018, and 2017, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2019 and June 30, 2018 respectively, the Fund reported a liability of \$999,000 and \$1,648,000 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2019 was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017, rolled forward to the measurement date of June 30, 2018. 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, 2018. At June 30, 2018 and June 30, 2017, the Fund's proportionate share was 0.39% and 0.38%, respectively.

For the years ended June 30, 2019 and June 30, 2018, respectively, the Fund recognized pension expense of \$71,000 and \$317,000. At June 30, 2019 and June 30, 2018, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(Dollars in thousands)	June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 588
Difference between expected and actual experience	50	2
Changes in proportion and differences between Fund contributions and proportionate share of contributions	37	87
Fund contributions made subsequent to the measurement date	565	-
	<u>\$ 652</u>	<u>\$ 677</u>

(Dollars in thousands)	June 30, 2018	
	Deferred Outflows of Resources	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	-
	<u>\$ 746</u>	<u>\$ 616</u>

Deferred outflows of resources related to pensions of \$565,000 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, 2020. 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	Pension
June 30:	Expense
2020	\$ 30
2021	(94)
2022	(426)
2023	(100)

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

	2018	2017
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 - 35.10%	1.75 - 35.10%
Non-state	2.00 - 35.88%	2.00 - 35.88%
Disability rates	0.007 - .675%	0.007 - .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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Weighted Average Expected Real Rate of Return</u>
Domestic Equity	27.5%	4.5%	1.24%
International Equity	27.5%	8.6%	2.37%
Fixed Income	15.0%	3.3%	0.50%
Real estate	10.0%	6.0%	0.60%
Private equity	10.0%	6.4%	0.64%
Hedge funds	10.0%	4.0%	0.40%
Total	<u>100%</u>		5.75%
Inflation (CPI)			<u>2.10%</u>
			<u>7.85%</u>

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 employer contributions will continue to follow the current funding policies. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. 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)		
Current		
1% Decrease	Discount Rate	1% Increase
<u>6.50%</u>	<u>7.50%</u>	<u>8.50%</u>
\$ 4,023	\$ 999	\$ (1,559)

NOTE G – COMPENSATED ABSENCES

Employees accumulate annual leave balances to a maximum of 210 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 US GAAP. The liability for annual leave is shown below. In lieu of cash payment at retirement, an employee who became a member of PERS before July 1, 2015 may 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*. If an employee became a member on or after July 1, 2015, they may not use accumulated annual leave to acquire additional credited service but they may still elect to use accumulated annual leave toward their postemployment health care insurance premium explained in *Note H – Postemployment Healthcare Plan*.

(Dollars in thousands)			
	Accumulated Annual Leave		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of fiscal year	\$ 435	\$ 414	\$ 392
Annual leave earned	549	477	458
Annual leave (used)	<u>(511)</u>	<u>(456)</u>	<u>(436)</u>
Balance at end of fiscal year	<u>\$ 473</u>	<u>\$ 435</u>	<u>\$ 414</u>

NOTE H – OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS

The Fund has participants in two separate Other Postemployment Healthcare Benefit Plans – the Fund’s Welfare Benefit Plan and the West Virginia Public Employees Insurance Agency Plan (PEIA Plan). At June 30, 2019 and 2018, the aggregate balances of the two Other Postemployment Healthcare Benefit Plans on the Fund’s financial statements were as follows:

(Dollars in thousands)						
	Year Ended June 30,			Year Ended June 30,		
	2019			2018		
	<u>Welfare</u>	<u>PEIA</u>	<u>Total</u>	<u>Welfare</u>	<u>PEIA</u>	<u>Total</u>
	<u>Benefit Plan</u>	<u>Plan</u>		<u>Benefit Plan</u>	<u>Plan</u>	
Deferred Outflows of Resources	\$ 263	\$ 64	\$ 327	\$ 289	\$ 66	\$ 355
Noncurrent liabilities:						
Net OPEB liabilities (assets)*	(662)	691	29	(572)	851	279
Deferred Inflows of Resources	573	238	811	717	153	870
Operating Expenses:						
OPEB Expenses **	102	35	137	111	96	207
*Included in Other liabilities in the Statements of Net Position						
** Included in Administrative expenses, net in the Statements of Revenues, Expenses and Changes in Net Position						

Disaggregated amounts for each plan are presented, below.

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, 2019 and June 30, 2018, the following employees were covered by the benefit terms:

Welfare Benefit Plan Covered Employees	June 30,	
	2019	2018
Inactive employees or beneficiaries currently receiving benefit payments	12	11
Inactive employees entitled to but not yet receiving benefit payments	-	-
Active plan members	100	100
Total	112	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 may 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 \$311,000, and \$228,000 for the fiscal years ended June 30, 2019 and 2018, respectively.

Investments

Investment policy. The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Fund's Board of Directors. Investments are to be diversified as to minimize the risk of large losses as follows:

Welfare Benefit Plan Permitted Investments	Maximum % of Portfolio
Cash:	
Demand Deposits	30%
Fixed Income:	
Direct Federal Obligations	90%
Federal Agency Obligations	90%
Federally Guaranteed Obligations	90%
FDIC Insured CDs	50%

Rate of Return. For the years ended June 30, 2019 and June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 3.37 percent and 0.78 percent, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

At June 30, 2019 and 2018, the components of the net OPEB liability (asset) of the Fund were as follows:

Welfare Benefit Plan (Dollars in thousands)	June 30,	
	2019	2018
Total OPEB Liability	\$ 4,923	\$ 4,872
Plan Fiduciary Net Position	5,585	5,444
Net OPEB Liability (Asset)	<u>\$ (662)</u>	<u>\$ (572)</u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability (Asset)	113.45%	111.74%

Actuarial Assumptions and Methods

The total OPEB liability (asset) as of June 30, 2019 and June 30, 2018 was determined by an actuarial valuation as of January 2018 rolled forward to June 30, 2019 and 2018, respectively, using the following actuarial assumptions and methods:

Welfare Benefit Plan			
Valuation Date	1/1/2018 Rolled forward to 6/30/2019	1/1/2018 Rolled forward to 6/30/2018	
Actuarial Method	Entry Age Normal	Entry Age Normal	
Amortization Method	Level Percentage of Pay Closed	Level Percentage of Pay Closed	
Remaining Amortization Period	19 years as of 1/1/2018	19 years as of 1/1/2018	
Asset Valuation Method	Market Value of Assets	Market Value of Assets	
Actuarial Assumptions:			
Investment Rate of Return	4.50%	4.50%	
Salary Increases	3.00%	3.00%	
Ultimate Rate of Medical Inflation	4.00%	4.00%	
General Rate of Inflation	2.00%	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, 2019 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, 2018 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 28, 2018 was 3.87% and the municipal bond rate at June 27, 2019 was 3.50%. However, the depletion test as of the most recent actuarial valuation as of January 1, 2018, reflecting known contributions after that date as well as the current funding policy, showed that the projected assets are expected to cover future benefit payments for current participants and as such the single rate used as the discount rate is the long-term expected rate of return, 4.50%. The actuarial liability, normal cost, and expected benefit payments were projected for the remaining lifetimes of the closed group population as of January 1, 2018 using the assumptions detailed in the 2018 actuarial valuation report. An Actuarially Determined Contribution (ADC) was calculated each year based on the current closed amortization period. The assets were then projected forward reflecting known contributions through June 30, 2018, and then assuming that two times the ADC is contributed for the next five years. Since the assets are projected to always be greater than the expected benefit payments in any year, the long-term expected rate of return of 4.50% is used to calculate the liabilities.

Changes in the Net OPEB Liability

At June 30, 2019 and June 30, 2018, respectively, the Fund reported a liability of (\$662,670) and (\$572,143) for its Net OPEB Liability (Asset). The Total OPEB Liability (TOL) at the beginning of each measurement year is measured as of a valuation date of January 1, 2018 and rolled forward to June 30, 2019 and June 30, 2018, respectively. The TOL at the end of the measurement year, June 30, 2019 and June 30, 2018, is measured as of a valuation date of January 1, 2018 and projected to June 30, 2019 and June 30, 2018, respectively. Valuations will be completed every other year.

Welfare Benefit Plan (Dollars in thousands)	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
	(a)	(b)	(a) - (b)
Balances at 6/30/2018	\$ 4,872	\$ 5,444	\$ (572)
Changes for the year:			
Service cost	143	-	143
Interest	219	-	219
Changes of benefits	-	-	-
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	311	(311)
Contributions - member	-	-	-
Net investment income	-	172	(172)
Benefit payments	(311)	(311)	-
Administrative expense	-	(31)	31
Net changes	<u>51</u>	<u>141</u>	<u>(90)</u>
Balances at 6/30/2019	<u>\$ 4,923</u>	<u>\$ 5,585</u>	<u>\$ (662)</u>

Welfare Benefit Plan (Dollars in thousands)	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
	(a)	(b)	(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	Discount Rate	1% Increase
	3.50%	4.50%	5.50%
	\$	\$	\$
Total OPEB Liability	5,366	4,923	4,534
Plan Fiduciary Net Position	5,585	5,585	5,585
Net OPEB Liability (Asset)	\$ (219)	\$ (662)	\$ (1,051)
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	104.10%	113.50%	123.20%

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	4,408	4,923	5,523
Plan Fiduciary Net Position	5,585	5,585	5,585
Net OPEB Liability (Asset)	\$ (1,177)	\$ (662)	\$ (62)
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	126.70%	113.50%	101.10%

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

For the years ended June 30, 2019 and June 30, 2018, respectively, the Fund recognized OPEB expense of \$102,454 and \$111,305. At June 30, 2019 and 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)	June 30,			
	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 133	\$ -	\$ 167
Changes in assumptions	-	440	-	550
Net difference between projected and actual earnings on OPEB plan investments	263	-	289	-
Total	<u>\$ 263</u>	<u>\$ 573</u>	<u>\$ 289</u>	<u>\$ 717</u>

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

Welfare Benefit Plan (Dollars in thousands)	
Year Ended June 30:	OPEB Expense
2020	\$ (46)
2021	(46)
2022	(89)
2023	(129)

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

Plan Description

The PEIA Plan is a cost-sharing, multiple-employer, defined benefit other post-employment benefit plan and 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 West Virginia Retiree Health Benefit Trust Fund (RHBT), a fiduciary fund of the State of West Virginia. The PEIA Plan is administered by a combination of the West Virginia Public Employees Insurance Agency (PEIA) and the RHBT staff. PEIA Plan benefits are established and revised by PEIA and RHBT management with approval of their Finance Board. The PEIA issues a publically available 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 57th 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 of 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 employees, 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. The annual contractually required rate is the same for all participating employers. 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 annual contractually required per active policyholder per month rates for State non-general funded agencies and other participating employers effective June 30, 2019, 2018, and 2017, respectively, were:

(Dollars in thousands)	Years Ended June 30,			
	2019	2018	2017	2017
			1/1/17-6/30/17	7/1/16-12/31/16
Paygo Premium	\$ 183	\$ 177	\$ 135	\$ 196

The Fund's contributions to the PEIA Plan were \$64,000, \$66,000, and \$71,000 for the years ended June 30, 2019, 2018, and 2017, respectively.

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, 2019 and 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)	<u>2019</u>	<u>2018</u>
Fund proportionate share of the net OPEB liability	\$ 691	\$ 851
State's special funding proportionate share of the net OPEB liability associated with the Fund	143	175
Total portion of the net OPEB liability associated with the Fund	<u>\$ 834</u>	<u>\$ 1,026</u>

The net OPEB liability reported at June 30, 2019 was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. 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, 2018, the Fund's proportion was .032209 percent, which is a decrease of .002398 percent from its proportion measured as of June 30, 2017.

For the years ended June 30, 2019 and 2018, respectively, the Fund recognized OPEB expense of \$34,566 and \$95,981 and for support provided by the State under special funding situations revenue of \$43,653 and \$53,658. At June 30, 2019 and 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)	<u>June 30, 2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 10
Changes in assumptions	-	69
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	-	146
Fund contributions subsequent to the measurement date of June 30, 2018	64	-
Total	<u>\$ 64</u>	<u>\$ 238</u>

PEIA Plan (Dollars in thousands)	June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 3
Net difference between projected and actual earnings on OPEB plan investments	-	13
Changes in proportion and differences between Fund contributions and proportionate share of contributions	-	137
Fund contributions subsequent to the measurement date of June 30, 2017	66	-
Total	\$ 66	\$ 153

Deferred outflows of resources related to OPEB of \$64,000 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, 2020. 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
2020	\$ (75)
2021	(75)
2022	(65)
2023	(23)

Actuarial Assumptions

The June 30, 2019 total OPEB liability was determined by an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018 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 2018. For fiscal years on and after 2019, trend starts at 8.00% and 10.00% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.13% and 0.00% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2022 to account for the Excise Tax.
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage of payroll, closed
Remaining amortization method	20 years closed as of June 30, 2017

Post-retirement 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) and RP-2014 Healthy Annuitant Mortality Table projected with scale MP-2016 on a fully generational basis for West Virginia Death, Disability, and Retirement Fund (Troopers A) and West Virginia State Police Retirement System (Troopers B). Pre-retirement mortality

rates were based on RP-2000 Non-Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and TRS and RP-2014 Employee Mortality Table projected with Scale MP-2016 on a fully generational basis for Troopers A and B.

The June 30, 2018 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

Post-retirement 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 and 2017 valuations were based on the results of an actuarial experience study for the period July 1, 2011- June 30, 2015.

Certain assumptions have been changed since the prior measurement date. The assumption changes that most significantly impacted the Net OPEB Liability are as follows: the inclusion of waived annuitants increased the liability by approximately \$17 million; a 15% reduction in the retirement rate assumption decreased the liability by approximately \$68 million; a change in certain healthcare-related assumptions decreased the liability by approximately \$232 million; and an update to the mortality tables increased the liability by approximately \$25 million. Certain other assumption changes were noted but did not materially impact the Net OPEB Liability.

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

Discount rate. The discount rate used to measure the total OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that PEIA Plan contributions would be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. Future pre-funding assumptions include a \$30 million annual contribution from the State through 2037. Based on those assumptions, and that the PEIA Plan is expected to be fully funded by fiscal year ended June 30, 2037, 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.

Other key assumptions. The projection assumes that the capped subsidy aggregate contribution limit of \$160 million for 2018 would increase by \$10 million per year on and after 2019. 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 2037, 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.

Contract Renewal

On August 21, 2018, RHBT executed a contract renewal with Humana's Medicare Advantage Plan (Humana MAPD) for Plan years 2019 and 2020. This renewal included reduced per member per month capitation costs which decreased from \$224 to \$175 per member per month, due to favorable experience and the removal of the health insurance fee.

The estimated impact of these reduced rates was not recognized in the estimated net OPEB liability measured at June 30, 2018, since the contract was executed subsequent to the measurement date. Per GASB Statement 75, if a change occurs in a factor relevant to measurement of the net OPEB liability between the measurement date of the net OPEB liability and the employer's current fiscal year-end, the employer should report the effect on the net OPEB liability of that change as of the next measurement date. The estimated impact of the reduced capitation rates on the net OPEB liability is a decrease of approximately 9.0%, or \$280 million, which was considered in the next actuarial valuation estimating the net OPEB liability measured as of June 30, 2019. The future actuarial measurement may differ significantly from this estimate due to various other factors such as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions due to

changing conditions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

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		
	Current		
	1% Decrease 6.15%	Discount Rate 7.15%	1% Increase 8.15%
Fund's proportionate share of the net OPEB liability	\$ 812	\$ 691	\$ 590

Sensitivity of the Fund's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

PEIA Plan (Dollars in thousands)	Net Change in Healthcare Cost Trend Rates		
	Current		
	1% Decrease	Healthcare Cost Trend	1% Increase
Fund's proportionate share of the net OPEB liability	\$ 572	\$ 691	\$ 836

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 during the year ended June 30, 2018:

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

NOTE J – SUBSEQUENT EVENTS

On August 1, 2019, 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 \$2,365,000.

NOTE K - NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued Statement No. 84, *Fiduciary Activities*, Statement No. 87, *Leases*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, Statement No. 90, *Majority Equity Interests* and Statement No. 91, *Conduit Debt Obligations*. The provisions of Statements No. 84 and 90 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 provisions of Statement 91 are effective for periods beginning after December 15, 2020. The Fund has not yet determined the effect, if any, these statements will have on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY PERS

(Dollars in thousands)	Years Ended June 30				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
The Fund's proportionate (percentage) of the net pension liability	0.386822%	0.381747%	0.383639%	0.413624%	0.413581%
The Fund's proportionate share of the net pension liability	\$ 999	\$ 1,648	\$ 3,526	\$ 2,310	\$ 1,526
The Fund's covered payroll	\$ 5,345	\$ 5,183	\$ 5,289	\$ 5,607	\$ 5,538
The Fund's proportionate share of the net pension liability as a percentage of its covered payroll	18.70%	31.81%	66.70%	41.18%	27.56%
Plan fiduciary net position as a percentage of the total pension liability	96.33%	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

SCHEDULES OF CONTRIBUTIONS TO THE PERS

(Dollars in thousands)	Years Ended, June 30,						
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 565	\$ 588	\$ 622	\$ 714	\$ 785	\$ 803	\$ 743
Contributions in relation to the statutorily required contribution	565	588	622	714	785	803	743
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund's covered payroll	\$ 5,650	\$ 5,345	\$ 5,183	\$ 5,289	\$ 5,607	\$ 5,538	\$ 5,307
Contributions as a percentage of covered payroll	10.0%	11.0%	12.0%	13.5%	14.0%	14.5%	14.0%

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

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

(Dollars in thousands)	2019	June 30, 2018	2017
<u>Total OPEB Liability</u>			
Service cost	\$ 143	\$ 147	\$ 150
Interest (includes interest on service cost)	219	234	245
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	(200)	-
Changes of assumptions	-	(660)	-
Benefit payments	(311)	(228)	(218)
Net change in total OPEB liability	\$ 51	\$ (707)	\$ 177
Total OPEB liability - beginning	4,872	5,579	5,402
Total OPEB liability - ending	\$ 4,923	\$ 4,872	\$ 5,579
<u>Plan fiduciary net position</u>			
Contributions - employer	\$ 311	\$ 228	\$ 405
Contributions - member	-	-	-
Net investment income	172	46	22
Benefit payments, including refunds of member contributions	(311)	(228)	(218)
Administrative expense	(31)	(35)	(16)
Net change in plan fiduciary net position	\$ 141	\$ 11	\$ 193
Plan fiduciary net position - beginning	5,444	5,433	5,240
Plan fiduciary net position - ending	\$ 5,585	\$ 5,444	\$ 5,433
Net OPEB (asset) - ending	\$ (662)	\$ (572)	\$ 146
Plan fiduciary net position as a percentage of the total OPEB liability	113.46%	111.74%	97.40%

SCHEDULES OF CONTRIBUTIONS TO THE WELFARE BENEFIT PLAN

(Dollars in thousands)	2019	June 30, 2018	2017
Actuarially determined contribution	\$ 108	\$ 101	\$ 162
Contributions in relation to the actuarially determined contribution	311	228	405
Contribution (excess)	(203)	(127)	(243)
Covered employee payroll	\$ 5,582	\$ 5,396	\$ 5,268
Contributions as a percentage of covered employee payroll	5.57%	4.23%	7.69%

**SCHEDULES OF ANNUAL RATE OF RETURN ON INVESTMENTS –
WELFARE BENEFIT PLAN**

	2019	June 30, 2018	2017
Money-weighted rate of return, net of investment expense	3.37%	0.78%	0.66%

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

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

(Dollars in thousands)	Years Ended June 30,	
	2019	2018
The Fund's proportionate (percentage) of the net OPEB liability	0.032209%	0.034607%
The Fund's proportionate share of the net OPEB liability	\$ 691	\$ 851
State's proportionate share of the net OPEB liability associated with the Fund	143	175
Total	<u>\$ 834</u>	<u>\$ 1,026</u>
The Fund's covered employee payroll	\$ 126	\$ 124
The Fund's proportionate share of the net OPEB liability as a Percentage of its covered employee payroll	548.41%	686.29%
Plan fiduciary net position as a percentage of the total OPEB liability	30.98%	25.10%
Note: All amounts presented are as of the measurement date, which is one year prior to the fiscal year end date		

SCHEDULES OF CONTRIBUTIONS TO THE WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY PLAN

(Dollars in thousands)	Years ended June 30,	
	2019	2018
Required contribution	\$ 64	\$ 66
Contributions in relation to the required contribution	64	66
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
The Fund's covered employee payroll	\$ 131	\$ 126
Contributions as a percentage of covered employee payroll	48.9%	52.4%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE A – RETIREMENT PLAN TREND INFORMATION PRESENTED

The accompanying schedules of the Fund’s proportionate share of the net OPEB and pension liabilities and contributions to the West Virginia PEIA Plan, PERS, 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 – RETIREMENT PLAN ACTUARIAL ASSUMPTIONS AND METHODS

The information presented in the Schedules of Contributions to PERS was based on the actuarial valuation as of July 1, 2018 using the actuarial assumptions and methods as follows:

	<u>2015 - 2018</u>	<u>2014</u>
Actuarial cost method	Individual entry age normal cost with level percentage of payroll	Individual entry age normal cost with level percentage of payroll
Asset valuation method	Fair value	Fair value
Amortization method	Level dollar, fixed period	Level dollar, fixed period
Amortization period	Through Fiscal Year 2035	Through Fiscal Year 2035
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases:		
State	3.0 - 4.6%	4.25 - 6.0%
Non-state	3.35 - 6.0%	
Inflation rate	3%; (2015 - 1.90%)	2.20%
Discount rate	7.50%	7.50%
Mortality rates	Active - 100% of RP-2000 Non-Annuitant, Scale AA fully generational (2016, 2017) Retired healthy males - 110% of RP-2000 Healthy Annuitant, Scale AA fully generational Retired healthy females - 101% of RP-2000 Healthy Annuitant, Scale AA fully generational Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA fully generational Disabled females - 107% of RP-2000 Disabled Annuitant, Scale AA fully generational	Healthy males - 1983 GAM Healthy females - 1971 GAM Disabled males - 1971 GAM Disabled females - Revenue ruling 96-7
Withdrawal rates: State	1.75 - 35.1%	1 - 26%
Non-state	2 - 35.88%	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 Schedules of Contributions to the Welfare Benefit Plan was based on the actuarial assumptions and methods as follows:

Valuation date	1/1/2018 Rolled forward to 6/30/2019
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	19 years as of 1/1/2018
Actuarial Assumptions:	
Discount rate	4.50%
Salary Increases	3% total payroll growth
Healthcare cost trend rates	Pre-Medicare: 8.40% in calendar 2018 grading down to 4.0% over 15 years Medicare: 0.0% in calendar 2018 and 2019 5.0% grading down to 4.0% over 13 years Administrative expenses: 4.0% per year

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, terminated members with at least ten years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 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 assumptions between the 2017 and 2016 valuations:

The assumption changes that most significantly impacted the Net OPEB Liability are as follows: the inclusion of waived annuitants increased the liability by approximately \$17 million; a 15% reduction in the retirement rate assumption decreased the liability by approximately \$68 million; a change in certain healthcare-related assumptions decreased the liability by approximately \$232 million; and an update to the mortality tables increased the liability by approximately \$25 million. Certain other assumption changes were noted but did not materially impact the Net OPEB Liability.

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

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.