

West Virginia Water Development Authority
Financial Statements With Supplementary Information
Year Ended June 30, 2007

WITH INDEPENDENT AUDITORS' REPORT

West Virginia Water Development Authority

Financial Statements
Year Ended June 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
West Virginia Water Development Authority
Charleston, West Virginia

We have audited the accompanying statement of net assets of the West Virginia Water Development Authority (the Authority), a component unit of the State of West Virginia, as of and for the year ended June 30, 2007, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Water Development Authority as of June 30, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2007, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 to 8 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Authority. The accompanying schedules on pages 29 to 31 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Johnson & Kawash

September 28, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The West Virginia Water Development Authority (the "Authority") was established in 1972 by the West Virginia Legislature as a governmental instrumentality of the State of West Virginia (the "State") and a body corporate and is considered a component unit of the State for financial reporting purposes. The Authority commenced operations in 1974 and is authorized to serve as a revenue bond bank that provides financial assistance to municipalities, public service districts and other political subdivisions to meet the requirements of State and federal water pollution control and safe drinking water laws, thereby helping to protect the health of the State's citizens, improving drinking water quality, upgrading infrastructure to attract economic development and protecting the environment. The Authority operates under the supervision of the West Virginia Water Development Board, which is comprised of seven members. The Authority, which also serves as fiduciary for three other programs which are audited separately, has a staff of six and utilizes professional services to supplement its staff as needed. The Authority is self-supporting and does not receive State appropriations for operating expenses or bond programs.

The Authority maintains a variety of programs to provide long-term, short-term and private-activity financing at favorable interest rates for design, construction and/or acquisition of wastewater and/or water systems. Generally, the Authority's programs are funded with proceeds from water development bonds issued by the Authority. Moneys in the various programs are loaned to municipalities, public service districts and other political subdivisions through the purchase of revenue bonds or notes issued by these local governmental agencies. The loans are repaid from the revenues of the systems or other permanent financing. Because the Authority's bonds are considered a moral obligation of the State, the aggregate principal amount of bonds and/or notes issued by the Authority may not exceed \$500 million outstanding at any time; provided that before the Authority issues bonds or notes in excess of \$440 million, the Legislature must pass a resolution authorizing this action. The Authority's long-term planning is accomplished within the confines of its authorized borrowing limit. Additionally, due to federal law changes regarding pool financing, the Authority has used and will use other available resources to fund loans and then issue bonds when a significant identifiable need arises.

This discussion and analysis of the Authority's financial activities for the year ended June 30, 2007, is designed to assist the reader in focusing on significant financial issues and activities of the Authority and to identify significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements, which begin on page 9.

USING THIS REPORT

This report consists of a series of financial statements. The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets report the Authority's net assets and changes in them. The Authority's net assets – the difference between assets and liabilities – is one way to measure the Authority's financial health or financial position.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS

- Total assets of the Authority decreased \$2.1 million or .70%. There was a corresponding decrease in total liabilities of \$5.7 million or 2.28%. Total net assets increased \$3.6 million or 7.56%.
- Total revenues had a net decrease of \$494 thousand. The decrease was in operating revenues. Operating revenues consist primarily of charges for services for both the current and prior years and prepayment fees for the prior year only, which are discussed in more detail on page 7.
- Total expenses increased \$334 thousand. This was the result of a \$430 thousand increase in interest expense, offset by a \$96 thousand decrease in operating expenses.
- The early redemption during the prior year of \$1.2 million of the Authority's outstanding Series 1995 A-II refunding and 1995 B-II revenue bonds resulted in a \$174 thousand loss, reflected as an extraordinary item in the financial statements for the prior year.

THE AUTHORITY AS A WHOLE

The analysis below focuses on Net Assets (Table 1) and Changes in Net Assets (Table 2):

Table 1			
Net Assets			
	2007	2006	Increase (Decrease)
Assets:			
Current assets	\$ 24,143,412	\$ 21,299,118	\$ 2,844,294
Noncurrent assets	<u>272,351,660</u>	<u>277,295,332</u>	<u>(4,943,672)</u>
Total assets	296,495,072	298,594,450	(2,099,378)
Liabilities:			
Current liabilities	8,201,375	8,495,981	(294,606)
Long-term debt outstanding	<u>236,937,030</u>	<u>242,349,532</u>	<u>(5,412,502)</u>
Total liabilities	245,138,405	250,845,513	(5,707,108)
Net Assets:			
Invested in capital assets	742,758	774,320	(31,562)
Restricted	26,128,267	25,710,221	418,046
Unrestricted	<u>24,485,642</u>	<u>21,264,396</u>	<u>3,221,246</u>
Total net assets	<u>\$ 51,356,667</u>	<u>\$ 47,748,937</u>	<u>\$ 3,607,730</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Table 2
Changes in Net Assets

	2007	2006	Increase (Decrease)
Revenues:			
Operating revenues:			
Charges for services	\$ 15,827,635	\$ 16,063,670	\$ (236,035)
Prepayment fees	-	247,396	(247,396)
Other	<u>1,800</u>	<u>23,162</u>	<u>(21,362)</u>
Total operating revenues	15,829,435	16,334,228	(504,793)
Nonoperating revenues:			
Interest and investment revenue, net of arbitrage	<u>1,600,747</u>	<u>1,590,330</u>	<u>10,417</u>
Total revenues	17,430,182	17,924,558	(494,376)
Expenses:			
Operating expenses	718,843	814,960	(96,117)
Nonoperating expenses:			
Interest expense	<u>13,103,609</u>	<u>12,673,059</u>	<u>430,550</u>
Total expenses	13,822,452	13,488,019	334,433
Income before extraordinary item	3,607,730	4,436,539	(828,809)
Extraordinary item—loss on redemption of bonds	<u>-</u>	<u>(174,334)</u>	<u>174,334</u>
Change in net assets	3,607,730	4,262,205	(654,475)
Beginning net assets	<u>47,748,937</u>	<u>43,486,732</u>	<u>4,262,205</u>
Ending net assets	<u>\$ 51,356,667</u>	<u>\$ 47,748,937</u>	<u>\$ 3,607,730</u>

Total assets decreased \$2.1 million or .70%. Decreases to assets were the result of the use of assets to pay interest expense on bonds payable of \$12.5 million, scheduled principal payments on bonds payable of \$6.6 million and general and administrative expenses of \$537 thousand. The combined decrease to assets of \$19.6 million was offset by the following increases to assets:

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

revenues from interest on loans reflected in the financial statements as "charges for services" of \$15.8 million and interest on investments of \$1.6 million. During the year, the Authority closed three wastewater project related loans totalling \$874 thousand, of which \$391 thousand was disbursed for those projects during the current year from unrestricted funds available to the Authority.

Total liabilities decreased \$5.7 million. Most of the decrease was in revenue bonds payable, which are presented on the balance sheet net of unamortized premiums, discounts, issue costs and deferred losses on advance refundings. If bonds payable net of these amounts as of June 30 of the prior year and as of June 30 of the current year are compared, the decrease in bonds payable was \$5.8 million. If the same comparison is made before netting these amounts against bonds payable, the decrease in bonds payable was \$6.6 million, which was the result of scheduled principal payments of bonds payable.

Unrestricted net assets increased \$3.2 million, primarily explained as the combined result of \$2.4 million net income in unrestricted accounts, a \$579 thousand transfer from the restricted portion of supplemental revenue bonds receivable to current assets and a decrease in liabilities payable from current assets of the four loan programs of \$302 thousand. Offsetting those increases was a net decrease in interest receivable in the four loan programs of \$108 thousand.

Restricted net assets increased \$418 thousand. This was primarily the result of \$1.25 million net income in the four loan programs offset by a net \$773 thousand transfer of assets to and liabilities from unrestricted accounts as discussed above.

Charges for services decreased \$236 thousand or about 1.5% as the result of a \$233 thousand adjustment to correct a prior year overstatement of administrative fees income. The adjustment was not material, so it was offset against current year revenues.

While charges for services in total otherwise remained consistent, the following activities occurred in the Supplemental Fund and each of the Loan Programs: In Loan Program II, charges for services consisting of interest on loans decreased \$162 thousand because of a significant decrease in outstanding loans the prior year, the result of \$956 thousand of principal on loans in Loan Program II being prepaid the prior year. Interest on loans in the Supplemental Fund and Loan Programs I and III had a combined decrease of \$109 thousand consistent with a reduction in principal outstanding as the result of scheduled principal payments on loans.

In Loan Program IV, however, charges for services consisting of interest on loans increased \$269 thousand, the result of \$13.2 million of loans in Loan Program IV that closed during the prior year and which generated interest for only part of a year the prior year; whereas those same loans generated a full year of interest the current year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Prepayment fees for the prior year represented revenues from local governmental agencies that prepaid \$956 thousand of principal on loans outstanding. Because there were no current year local governmental agencies' prepayments on loans, there were no current year prepayment fees.

Interest expense increased \$431 thousand. The increase in large part occurred in Loan Program IV which had an increase of \$242 thousand as the result of the Series 2005 B-IV bonds issued in December of the prior year, resulting in only about seven months of interest expense on those bonds the prior year versus a full year of interest expense the current year.

Extraordinary item – loss on redemption of bonds for the prior year represents losses from partial redemptions of the Series 1995 A-II refunding and Series 1995 B-II revenue bonds. There were no events in the current year considered extraordinary; therefore, there were no extraordinary gains or losses.

DEBT ADMINISTRATION

As a financing entity, the business of the Authority is debt issuance and administration, including servicing. By statute, the maximum amount of bonds the Authority is authorized to have outstanding includes debt issued for the Authority and by the Authority on behalf of the West Virginia Infrastructure and Jobs Development Council. While the redemption of bonds is economically prudent because of the resulting debt service savings, any reduction in the liability for long-term debt enables the Authority to manage debt capacity for future needs as well as for new programs. The Authority, therefore, continues to monitor its long-term outstanding debt for prepayment and refunding opportunities for debt service savings. At year end, the Authority had \$261 million in revenue and refunding bonds outstanding versus \$267.6 million in the prior year, a decrease of 2.5%, as shown in Table 3.

Table 3
Outstanding Debt at Year End
(in Millions)

	<u>2007</u>	<u>2006</u>
Revenue bonds	\$ 87.5	\$ 89.0
Refunding bonds	<u>173.5</u>	<u>178.6</u>
Total	<u>\$ 261.0</u>	<u>\$ 267.6</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

ECONOMIC FACTORS THAT MAY AFFECT THE AUTHORITY

There are several unknown factors that may affect the Authority, including changes in existing federal or State legislation, additional responsibilities for new environmental or drinking water demands, and market conditions that could affect the viability of future revenue bond issues and impact investment earnings. Additionally, the Authority invests funds not required for immediate disbursement as permitted by statute, its bond resolutions and its "Investment Guidelines, Procedures and Controls." The Authority's investment income had been affected by the decline in short-term interest rates in prior years but continues to increase as interest rates increase.

CONTACTING THE AUTHORITY'S MANAGEMENT

This financial report is designed to provide a general overview of the Authority's finances and to show the Authority's accountability for the money it receives as well as its ability to pay debt service. If you have questions about this report or need additional information, contact the Director or Secretary/Treasurer, West Virginia Water Development Authority, 180 Association Drive, Charleston, West Virginia 25311, call 304-558-3612 or visit the Authority's website (www.wvwda.org).

West Virginia Water Development Authority

Statement of Net Assets June 30, 2007

ASSETS

Current assets:	
Cash and cash equivalents	\$ 15,133,321
Receivables:	
Revenue bonds, net of unamortized discount of \$58,018	4,336,341
Supplemental revenue bonds	579,077
Interest	3,966,084
Administrative fees	2,075
Due from other agencies	<u>126,514</u>
Total current assets	<u>24,143,412</u>
Noncurrent assets:	
Receivables:	
Revenue bonds	7,649,651
Loans receivable, net of allowances	-
Investments	1,200,000
Restricted assets:	
Cash and cash equivalents	2,032,898
Investments	15,626,056
Receivables, net:	
Revenue bonds, net of unamortized discount of \$1,389,743	234,546,291
Supplemental revenue bonds	10,554,006
Capital assets, net	<u>742,758</u>
Total noncurrent assets	<u>272,351,660</u>
Total assets	<u>296,495,072</u>

LIABILITIES

Current liabilities:	
Accounts payable	11,875
Current portion of revenue bonds payable, net of unamortized premium of \$144,196, discounts and issue costs of \$185,686 and deferred losses on advance refundings of \$757,970	5,530,540
Accrued interest payable	<u>2,658,960</u>
Total current liabilities	<u>8,201,375</u>
Noncurrent liabilities:	
Compensated absences	306,046
Liabilities payable from restricted assets:	
Arbitrage rebate payable	161,053
Noncurrent portion of revenue bonds payable, net of unamortized premium of \$3,641,298, discounts and issue costs of \$4,798,416 and deferred losses on advance refundings of \$17,087,951	<u>236,469,931</u>
Total noncurrent liabilities	<u>236,937,030</u>
Total liabilities	<u>245,138,405</u>
NET ASSETS	
Restricted	26,128,267
Unrestricted	24,485,642
Invested in capital assets	<u>742,758</u>
Total net assets	<u>\$ 51,356,667</u>

See accompanying notes to financial statements.

West Virginia Water Development Authority

Statement of Revenues, Expenses, and Changes In Fund Net Assets Year Ended June 30, 2007

Operating revenues:	
Charges for services	\$15,827,635
Recovery of uncollectible loans and service charges	<u>1,800</u>
Total operating revenues	<u>15,829,435</u>
Operating expenses:	
Depreciation and amortization	217,249
General and administrative	<u>501,594</u>
Total operating expenses	<u>718,843</u>
Operating income	<u>15,110,592</u>
Nonoperating revenues (expenses):	
Interest and investment revenue, net of arbitrage	1,600,747
Interest expense	<u>(13,103,609)</u>
Total nonoperating revenues (expenses)	<u>(11,502,862)</u>
Change in net assets	3,607,730
Total net assets, beginning of year	<u>47,748,937</u>
Total net assets, end of year	<u>\$ 51,356,667</u>

See accompanying notes to financial statements.

West Virginia Water Development Authority

Statement of Cash Flows Year Ended June 30, 2007

Cash flows from operating activities:	
Receipts of principal on bonds receivable	\$ 5,017,426
Receipts of interest on bonds receivable	16,136,622
Receipts of administrative fees on bonds receivable	24,886
Receipts of uncollectible loans and service charges	1,800
Receipts of reimbursements from other agencies	434,799
Disbursements of loans	(422,430)
Disbursements for general and administrative expense	(282,088)
Disbursements to employees	(254,791)
Disbursements on behalf of other agencies	(457,638)
Net cash provided by operating activities	<u>20,198,586</u>
Cash flows from noncapital financing activities:	
Principal paid on revenue and refunding bonds	(6,585,000)
Interest paid on revenue and refunding bonds	(12,537,172)
Net cash used for noncapital financing activities	<u>(19,122,172)</u>
Cash flows from investing activities:	
Investment earnings	<u>1,721,148</u>
Net cash provided by investing activities	<u>1,721,148</u>
Net increase in cash and cash equivalents	2,797,562
Cash and cash equivalents, beginning of year	<u>14,368,657</u>
Cash and cash equivalents, end of year	<u>\$ 17,166,219</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 15,110,592
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	31,562
Amortization of bond discounts and issuance costs	185,687
Changes in assets and liabilities:	
Due from other agencies	(22,839)
Supplemental revenue bonds receivable	578,259
Revenue bonds receivable	3,958,719
Accrued interest receivable	133,897
Administrative fees receivable	257,994
Accounts payable	7,731
Compensated absences	(43,016)
Net cash provided by operating activities	<u>\$ 20,198,586</u>

See accompanying notes to financial statements.

West Virginia Water Development Authority

Notes to Financial Statements

(1) Reporting Entity

The West Virginia Water Development Authority (the “Authority”) is a governmental instrumentality of the State of West Virginia (the “State”) and a body corporate, created under the provisions of Chapter 22C, Article 1 of the Code of West Virginia, 1931, as amended, and known as the West Virginia Water Development Act. The Authority’s mission is to provide West Virginia communities effective financial assistance for development of wastewater, water and economic infrastructure that will improve health, protect the streams of the State, improve drinking water quality and encourage economic growth. This is accomplished by administering and managing the West Virginia Water Development Revenue Bond Programs, serving as the State-designated fiduciary of the West Virginia Infrastructure Fund, managing the Bureau for Public Health’s Drinking Water Treatment Revolving Fund, administering the Department of Environmental Protection’s Clean Water State Revolving Fund, and being an active member of the West Virginia Infrastructure and Jobs Development Council.

The Authority’s Water Development Revenue Bond Programs are funded with proceeds of water development bonds issued by the Authority. Moneys in the programs are loaned to municipalities, public service districts and other political subdivisions through the purchase by the Authority of revenue bonds or notes issued by those entities, who repay the loans from the revenues of the systems or other permanent financing.

The Authority receives no appropriations from the State; however, as the State is able to impose its will over the Authority, the Authority is considered a component unit of the State.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in generally accepted accounting principles (GAAP) for governments. GAAP defines component units as those entities which are legally separate governmental organizations for which the appointed members of the Authority are financially accountable or other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority’s financial statements to be misleading. Because no such organizations exist which meet the above criteria, the Authority has no component units.

(2) Significant Accounting Policies

Basis of Presentation

The Authority is accounted for as a proprietary fund special purpose government engaged in business type activities. In accordance with accounting principles generally accepted in the United States of America, the financial statements are prepared on the accrual basis of accounting, using the flow of economic resources measurement focus. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. As permitted by GASB Statement No. 20, “Accounting and Financial Reporting for Proprietary

West Virginia Water Development Authority

Notes to Financial Statements (Continued)

(2) Significant Accounting Policies (Continued)

Funds and Other Governmental Entities that Use Proprietary Fund Accounting,” the Authority has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB statements or interpretations.

The Authority is included in the State’s basic financial statements as a discretely presented component unit proprietary fund and business type activity using the accrual basis of accounting. There may be differences between the amounts reported in these financial statements and the basic financial statements of the State as a result of major fund determination.

Cash Equivalents

Cash equivalents include investments with original maturities of less than ninety days.

Allowance for Uncollectible Loans and Service Charges

The Authority established an allowance for uncollectible revolving loans and service charges based on the estimated age of revolving loans and service charges and their anticipated collectibility. The Authority has not established an allowance for uncollectible loans in the Water Development Revenue Bond Programs because of remedies available to it in the loan agreements that exist between the Authority and the various entities.

Investments

Investments are carried at fair market values which are based upon quoted market prices. Realized gains and losses are recognized and reported as a component of investment income when proceeds of the sale differ from historical costs. Unrealized gains and losses are recognized and reported as a component of investment income when fair market values differ from historical costs.

Restricted Assets

Proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by bond covenants.

Capital Assets

Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated economic useful life. The table below details the capital asset categories and related economic useful lives:

Furniture and equipment	5 years
Building	40 years
Building improvements	10 years

West Virginia Water Development Authority

Notes to Financial Statements (Continued)

(2) Significant Accounting Policies (Continued)

Compensated Absences

Accumulated vacation leave is recorded as an expense and a liability as the benefits accrue to employees. The liability for accumulated vacation leave has been recorded at June 30, 2007, in accordance with GASB Statement No. 16.

State employees earn sick leave benefits which accumulate but do not vest. When separated from employment with the State, an employee's sick leave benefits are considered ended and no reimbursement is provided. At the time of retirement, however, any employee enrolled in the West Virginia Public Employees Retirement System prior to June 30, 2001, may convert any unused or accumulated sick leave to pay a portion of an employee's postemployment health care insurance premiums. If this option is not selected, the leave amount may be applied toward an increase in the employee's retirement benefits with such sick leave constituting additional credited service in computation of such benefits. Any employee enrolled in the West Virginia Public Employees Retirement System after June 30, 2001, may not apply accumulated sick leave toward the cost of premiums for extended insurance coverage. The liability for accumulated sick leave for those eligible for retirement has been recorded at June 30, 2007, in accordance with GASB Statement No. 16.

Bond Discounts and Issuance Costs

Bond discounts and issuance costs are amortized using the straight-line method over the varying terms of the bonds issued.

Arbitrage Rebate Payable

The United States Internal Revenue Code of 1986, as amended (the "Code"), prescribes restrictions applicable to the Authority as issuer of Water Development Revenue and Refunding Bonds. Among those include restrictions on earnings on the bond proceeds. The Code requires payment to the federal government of investment earnings on certain bond proceeds in excess of the amount that would have been earned if the proceeds were invested at a rate equal to the yield on the bonds, and a liability for that amount has been recorded at June 30, 2007.

(3) Deposit and Investment Risk Disclosures

The General Revenue Bond Resolutions and the Authority's investment guidelines authorize the Authority to invest all bond proceeds in obligations of the United States and certain of its agencies, certificates of deposit, public housing bonds, direct and general obligations of states which are rated in either of the two highest categories by Standard & Poor's Corporation, advance-refunded municipal bonds and repurchase agreements relating to certain securities. Investments are managed by the financial institutions serving as trustees for the Authority.

Interest Rate Risk

As of June 30, 2007, the Authority had the following investments and maturities:

West Virginia Water Development Authority

Notes to Financial Statements (Continued)

(3) Deposit and Investment Risk Disclosures (Continued)

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Repurchase Agreements	\$ 15,626,056	\$ -	\$ 9,743,994	\$ 3,436,520	\$ 2,445,542
U.S. Treasury	1,200,000	-	-	-	1,200,000
U.S. Agencies	1,597,094	1,597,094	-	-	-
Money Markets	15,421,415	15,421,415	-	-	-
	<u>\$ 33,844,565</u>	<u>\$ 17,018,509</u>	<u>\$ 9,743,994</u>	<u>\$ 3,436,520</u>	<u>\$ 3,645,542</u>

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment guidelines limit the maturities of investments not matched to a specific debt or obligation of the Authority to five years or less, unless otherwise approved by the Board.

Investments matched to obligations of the Authority would include investments of capital and/or special reserve funds for each of the Authority's outstanding bond issues in Loan Programs I, II and III. The General Revenue Bond Resolutions for Loan Programs I, II, III and IV require that, while the bonds are outstanding, there be on deposit in the capital and/or special reserve funds an amount equal to the maximum amount of principal installments and interest coming due during the current or any succeeding year. The General Revenue Bond Resolution for Loan Program IV permits this requirement to be met, and it has been met, with the deposit of a Reserve Fund Credit Facility into the reserve fund. There are, therefore, no investments of capital and/or special reserve funds for Loan Program IV. The Authority has both the intent and the ability to hold long-term securities until final maturity and thus is limited in its exposure to interest rate risk on these long-term obligations.

Concentration of Credit Risk

As of June 30, 2007, the Authority had investment balances with the following issuers which are greater than or equal to 5 percent of the investment balance:

Type	Issuer	Percentage of Investments
Repurchase Agreements	Ambac Capital Funding, Inc.	7%
	Bayerische Landesbank	22%
	Citigroup Global Markets, Inc.	7%
	Lehman Government Securities, Inc.	7%
Money Markets	Federated Prime Cash Obligations	46%

The Authority's investment guidelines manage concentration of credit risk by limiting its investment activity so that at any time its total investment portfolio will not exceed the percentage limits as to the permitted investments as shown on the next page:

West Virginia Water Development Authority

Notes to Financial Statements (Continued)

(3) Deposit and Investment Risk Disclosures (Continued)

<u>Permitted Investments</u>	<u>Maximum % of Portfolio</u>
(a) Direct Federal Obligations	100%
(b) Federally Guaranteed Obligations	100%
(c) Federal Agency Obligations	90%
(d) Money Markets	90%
(e) Repurchase Agreements/Investment Contracts	90%
(f) Time Deposits/Certificates of Deposit	90%
(g) Demand Deposits	30%
(h) Corporate Obligations	15%
(i) Other State/Local Obligations	15%
(j) West Virginia Obligations	15%
(k) Housing Bonds - Secured by Annual Contributions Contracts	5%

With the exception of money markets, repurchase agreements/investment contracts, time deposits/certificates of deposit and demand deposits, investments that comprise more than 15% of the investment portfolio must be direct federal, federal agency or federally guaranteed obligations.

All other investments listed above that comprise more than 15% of the investment portfolio must be either provided by an institution with a rating of at least "A/A" by Moody's and/or Standard and Poor's, invested in a money market fund rated "AAAm" or "AAAm-G" or better by Standard and Poor's, secured by obligations of the United States, or not exceed the insurance limits established by the FDIC unless adequate collateral is provided.

Credit Risk

The following table provides information on the credit ratings of the Authority's short-term investments:

<u>Security Type</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Standard & Poor's</u>	<u>Fair Value</u>
U.S. Agencies	AAA	AAA	AAA	\$ 1,597,094
Money Markets	AAA/V-1+	Aaa	AAAm	<u>15,421,415</u>
				<u>\$ 17,018,509</u>

West Virginia Water Development Authority

Notes to Financial Statements (Continued)

(3) Deposit and Investment Risk Disclosures (Continued)

Additionally, of the Authority's investments in repurchase agreements, the underlying securities consist of \$3,833,111 in United States Treasury Bonds, \$15,632 in federal agency obligations unconditionally guaranteed by the United States, and \$14,700,357 in mortgage-backed securities guaranteed by different federal agencies and which hold an implied AAA rating due to the guaranty of payment by the respective federal agency.

Credit risk with investment of bond proceeds is managed by the limitation on investment of those proceeds in the following types of debt securities in accordance with the Authority's investment guidelines and the authorizing General Revenue Bond Resolution: Government obligations, obligations of certain federal agencies, either representing the full faith and credit of the United States of America or which are rated "Aaa" by Moody's and "AAA" by Standard and Poor's, certain types of commercial paper, advance-refunded municipal bonds, certain general obligations of the State of West Virginia or any other state, or other forms of investments approved in writing by the applicable bond insurer, if any.

Accordingly, the credit risk with the investment of cash assets other than bond proceeds, known as "other revenues," is managed by the limitation on investment of other revenues in the following types of debt securities in accordance with the Authority's investment guidelines: direct obligations of or obligations guaranteed by the United States of America, the State of West Virginia or any other state, provided that obligations of other states meet certain requirements, obligations of certain federal agencies, certain types of indebtedness of public agencies or municipalities, corporate indebtedness meeting certain requirements or any other debt security investment permitted with bond proceeds.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Repurchase agreements are collateralized at 100% if the underlying security is cash and between 103% and 125% for other types of securities backed by the full faith and credit of the United States Government. The underlying securities of the Authority's \$15,626,056 in repurchase agreements are held by either a third-party custodian or by the Authority's trustee, in the name of the Trustee on behalf of the Authority.

The Authority's investment guidelines put certain restrictions on repurchase agreements, including the following: the Authority can only enter into repurchase agreements with financial institutions having a credit rating of at least "A/A"; collateral is limited to direct federal, federally guaranteed or federal agency obligations; collateral is required to be delivered to a third-party custodian, the Authority or the trustee; and, the financial institution must guarantee

West Virginia Water Development Authority

Notes to Financial Statements (Continued)

(3) Deposit and Investment Risk Disclosures (Continued)

the aggregate market value of the collateral will equal or exceed the outstanding repurchase agreement by the margin specified in the respective repurchase agreement. As of June 30, 2007, the Authority held no securities that were subject to custodial credit risk.

Foreign Currency Risk

The Authority has no securities that are subject to foreign currency risk.

Cash consisted of the following at June 30, 2007:

Cash on deposit with State Treasurer	\$ 89,876
Cash on deposit with Trustee	<u>57,834</u>
	<u>\$ 147,710</u>

A reconciliation of the amounts disclosed as cash and investments included in this Note to cash and cash equivalents, restricted cash and cash equivalents, and investments in the Statement of Net Assets as of June 30, 2007, is as follows:

Deposits:

Cash and cash equivalents as reported on the Statement of Net Assets	\$ 15,133,321
Add: restricted cash and cash equivalents as reported	2,032,898
Less: cash equivalents and restricted cash equivalents disclosed as investments	<u>(17,018,509)</u>
Total cash as disclosed in this Note	<u>\$ 147,710</u>

Investments:

Investments as reported on the Statement of Net Assets	\$ 1,200,000
Add: restricted investments as reported	15,626,056
Add: cash equivalents and restricted cash equivalents disclosed as investments	<u>17,018,509</u>
Total investments as disclosed in this Note	<u>\$ 33,844,565</u>

West Virginia Water Development Authority

Notes to Financial Statements (Continued)

(4) Due From Other Agencies

Certain agencies of the State were indebted to the Authority at June 30, 2007, in connection with expenses paid by the Authority on behalf of the agencies. Amounts due from other agencies at June 30, 2007, were as follows:

West Virginia Infrastructure and Jobs Development Council	\$ 97,534
Department of Environmental Protection Clean Water State Revolving Fund	20,478
Bureau for Public Health Drinking Water Treatment Revolving Fund	8,502
	\$ 126,514

(5) Allowance For Uncollectible Loans and Service Charges

Initiation of the Authority's Revolving Loan Fund program in 1974 was intended to complement a federal grant program under the United States Environmental Protection Agency, which began in 1972.

Step I (planning) and Step II (design) projects were funded by 75-percent federal grants and 25-percent Authority loans. These loans are no longer made. Step III (project construction) was funded with 75-percent federal grants and the remainder with Authority grants, other State and local grants, and local funds or note issues. Authority loans for Step I and Step II projects are eligible for repayment from construction financing.

It was anticipated that all projects initiated under this program would proceed through Steps I, II and III, thus completing the cycle and resulting in repayment of Authority loans. A federal policy change ended the United States Environmental Protection Agency grant program, which increased the probability of uncollectible amounts.

The Authority established guidelines to set up an allowance for estimated uncollectible amounts to be applied to balances as of June 30, 1981, and thereafter. The establishment of the allowance for financial reporting purposes does not affect the loan agreements that exist between the Authority and the various entities. The allowance of \$430,210 at June 30, 2007, is comprised of the following:

Loans receivable	\$ 426,084
Service charges receivable	4,126
Allowance for uncollectible	(430,210)
	\$ -

West Virginia Water Development Authority
Notes to Financial Statements (Continued)

(6) Revenue Bonds Receivable and Supplemental Revenue Bonds Receivable

As of June 30, 2007, the face value of revenue bonds of municipalities, public service districts and other political subdivisions purchased with proceeds from Water Development Revenue Bonds was \$240,060,885. Management's intentions are to hold such bonds until maturity; therefore, management believes the face amount of the bonds is fully collectible.

Although not required, the Authority purchased supplemental bonds of municipalities and public service districts using other available funds.

(7) Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>Balance</u>
Furniture and equipment	\$ 212,954	\$ -	\$ (12,683)	\$ 200,271
Building	963,493	-	-	963,493
Building improvements	18,927	-	-	18,927
Total at historical cost	<u>1,195,374</u>	<u>-</u>	<u>(12,683)</u>	<u>1,182,691</u>
Less accumulated depreciation for:				
Furniture and equipment	(187,351)	(7,475)	12,683	(182,143)
Building	(214,776)	(24,087)	-	(238,863)
Building improvements	(18,927)	-	-	(18,927)
Total accumulated depreciation	<u>(421,054)</u>	<u>(31,562)</u>	<u>12,683</u>	<u>(439,933)</u>
Capital assets, net	<u>\$ 774,320</u>	<u>\$ (31,562)</u>	<u>\$ -</u>	<u>\$ 742,758</u>

Depreciation expense for the year ended June 30, 2007, was \$31,562.

West Virginia Water Development Authority
Notes to Financial Statements (Continued)

(8) Revenue Bonds Payable

The following is a summary of the Authority's bond transactions for the year ended June 30, 2007:

Revenue bonds payable at June 30, 2006	\$ 267,630,000
Bonds issued	-
Bonds retired	<u>(6,585,000)</u>
Revenue bonds payable at June 30, 2007	<u>\$ 261,045,000</u>

Revenue and refunding bonds outstanding at June 30, 2007, were as follows:

<u>Series</u>	<u>Final Maturity</u>	<u>Interest Rates %</u>	<u>Balance</u>
2000 AIII	07/01/39	5.375-6.375	\$ 19,090,000
2000 BIII	07/01/40	4.800-5.875	10,415,000
2002 AI	11/01/25	3.625-5.125	7,075,000
2003 AII	11/01/23	2.000-4.400	8,855,000
2003 AI	11/01/26	2.625-5.250	22,770,000
2003 BII	11/01/29	2.625-5.250	51,210,000
2003 CII	11/01/33	2.625-5.000	16,950,000
2003 DII	11/01/24	2.625-4.850	5,030,000
2005 AIV	11/01/44	3.000-5.000	37,350,000
2005 AII	11/01/33	3.500-5.000	18,320,000
2005 BII	11/01/33	3.500-5.000	12,080,000
2005 BIV	11/01/44	3.750-5.125	11,810,000
2006 AII	11/01/39	3.750-5.000	<u>40,090,000</u>
			<u>\$ 261,045,000</u>

West Virginia Water Development Authority

Notes to Financial Statements (Continued)

(8) Revenue Bonds Payable (Continued)

Loan Program I includes Series 2002 A and 2003 A Water Development Revenue Refunding Bonds. Loan Program II includes Series 2003 A Water Development Revenue Bonds and Series 2003 B, 2003 C, 2003 D, 2005 A, 2005 B and 2006 A Water Development Revenue Refunding Bonds. Loan Program III includes Series 2000 A and 2000 B Water Development Revenue Bonds. Loan Program IV includes Series 2005 A and 2005 B Water Development Revenue Bonds.

Total future maturities of bond principal and interest on Authority indebtedness at June 30, 2007, are as follows:

Loan Program I

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/01/07	\$ 1,190,000	\$ 1,310,006	\$ 2,500,006
11/01/08	1,220,000	1,273,620	2,493,620
11/01/09	1,265,000	1,233,728	2,498,728
11/01/10	1,305,000	1,188,578	2,493,578
11/01/11	<u>1,355,000</u>	<u>1,137,921</u>	<u>2,492,921</u>
	<u>6,335,000</u>	<u>6,143,853</u>	<u>12,478,853</u>
11/01/12 - 11/01/16	7,400,000	4,820,825	12,220,825
11/01/17 - 11/01/21	7,645,000	3,095,426	10,740,426
11/01/22 - 11/01/26	<u>8,465,000</u>	<u>1,087,447</u>	<u>9,552,447</u>
	<u>23,510,000</u>	<u>9,003,698</u>	<u>32,513,698</u>
	<u>\$ 29,845,000</u>	<u>\$ 15,147,551</u>	<u>\$ 44,992,551</u>

Loan Program II

11/01/07	\$ 3,935,000	\$ 6,950,264	\$ 10,885,264
11/01/08	4,060,000	6,827,291	10,887,291
11/01/09	4,185,000	6,695,739	10,880,739
11/01/10	4,320,000	6,551,319	10,871,319
11/01/11	<u>4,475,000</u>	<u>6,378,587</u>	<u>10,853,587</u>
	<u>20,975,000</u>	<u>33,403,200</u>	<u>54,378,200</u>
11/01/12 - 11/01/16	25,315,000	28,649,112	53,964,112
11/01/17 - 11/01/21	28,000,000	22,374,168	50,374,168
11/01/22 - 11/01/26	31,495,000	15,282,060	46,777,060
11/01/27 - 11/01/31	28,800,000	7,646,213	36,446,213
11/01/32 - 11/01/36	12,460,000	2,663,750	15,123,750
11/01/37 - 11/01/39	<u>5,490,000</u>	<u>395,500</u>	<u>5,885,500</u>
	<u>131,560,000</u>	<u>77,010,803</u>	<u>208,570,803</u>
	<u>\$ 152,535,000</u>	<u>\$ 110,414,003</u>	<u>\$ 262,949,003</u>

West Virginia Water Development Authority
Notes to Financial Statements (Continued)

(8) Revenue Bonds Payable (Continued)

Loan Program III

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
07/01/07	\$ 705,000	\$ 1,743,343	\$ 2,448,343
07/01/08	740,000	1,705,020	2,445,020
07/01/09	785,000	1,664,053	2,449,053
07/01/10	820,000	1,620,208	2,440,208
07/01/11	<u>355,000</u>	<u>1,587,663</u>	<u>1,942,663</u>
	<u>3,405,000</u>	<u>8,320,287</u>	<u>11,725,287</u>
07/01/12 - 07/01/16	2,080,000	7,602,413	9,682,413
07/01/17 - 07/01/21	2,800,000	6,872,106	9,672,106
07/01/22 - 07/01/26	3,745,000	5,898,303	9,643,303
07/01/27 - 07/01/31	5,005,000	4,593,596	9,598,596
07/01/32 - 07/01/36	6,715,000	2,823,518	9,538,518
07/01/37 - 07/01/40	<u>5,755,000</u>	<u>610,298</u>	<u>6,365,298</u>
	<u>26,100,000</u>	<u>28,400,234</u>	<u>54,500,234</u>
	<u>\$ 29,505,000</u>	<u>\$ 36,720,521</u>	<u>\$ 66,225,521</u>

Loan Program IV

11/01/07	\$ 500,000	\$ 2,322,794	\$ 2,822,794
11/01/08	665,000	2,303,756	2,968,756
11/01/09	695,000	2,280,569	2,975,569
11/01/10	715,000	2,256,216	2,971,216
11/01/11	<u>745,000</u>	<u>2,230,069</u>	<u>2,975,069</u>
	<u>3,320,000</u>	<u>11,393,404</u>	<u>14,713,404</u>
11/01/12 - 11/01/16	4,145,000	10,700,753	14,845,753
11/01/17 - 11/01/21	5,155,000	9,648,072	14,803,072
11/01/22 - 11/01/26	6,350,000	8,260,072	14,610,072
11/01/27 - 11/01/31	7,355,000	6,620,087	13,975,087
11/01/32 - 11/01/36	8,705,000	4,592,122	13,297,122
11/01/37 - 11/01/41	8,170,000	2,553,553	10,723,553
11/01/42 - 11/01/44	<u>5,960,000</u>	<u>457,213</u>	<u>6,417,213</u>
	<u>45,840,000</u>	<u>42,831,872</u>	<u>88,671,872</u>
	<u>\$ 49,160,000</u>	<u>\$ 54,225,276</u>	<u>\$ 103,385,276</u>

Total all loan programs	\$ 261,045,000
Add: unamortized premium	3,785,494
Less: unamortized discount, bond issue costs and deferred losses on advance refundings	<u>(22,830,023)</u>
Total all programs, presented net	242,000,471
Less: current portion	<u>(5,530,540)</u>
Noncurrent portion	<u>\$ 236,469,931</u>

West Virginia Water Development Authority

Notes to Financial Statements (Continued)

(8) Revenue Bonds Payable (Continued)

In prior years, the Authority defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 2007, there are \$43,450,000 in defeased bonds outstanding.

(9) Pension Plan

The Authority contributes to a cost-sharing, multiple-employer defined benefit pension plan administered by the West Virginia Public Employees Retirement System ("PERS"). It provides retirement, disability and death benefits to plan members and beneficiaries. State statutes establish benefit provisions. The West Virginia Consolidated Public Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information of PERS. That report may be obtained by writing to:

West Virginia Consolidated Public Retirement Board
Building 5, Room 1000
1900 Kanawha Boulevard East
Charleston, West Virginia 25305-0720

The Authority and plan members are required to contribute 10.5% and 4.5%, respectively, of annual covered salaries. The contribution requirements of the Authority and plan members are established and may be amended by State statute. The Authority's contributions to PERS for the years ended June 30, 2007, 2006 and 2005 for Authority employees, including employees utilized by the Infrastructure and Jobs Development Council (the "Council"), were \$43,999, \$45,973, and \$48,228, respectively. The Authority's contributions to PERS for Authority employees utilized by the Council for the years ended June 30, 2007, 2006 and 2005 were \$9,783, \$10,967 and \$11,187, respectively, which contributions were reimbursed by the Council.

(10) Other Postemployment Benefits

The Governmental Accounting Standards Board ("GASB") issued GASB 43 "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans" and GASB 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" effective for years ending June 30, 2007, and June 30, 2008, respectively. Beginning July 1, 2007, the Authority will contribute to the West Virginia Other Postemployment Benefit ("WVOPEB") Plan, a cost-sharing, multiple-employer plan administered by the West Virginia Public Employees Insurance Agency. It provides health insurance coverage to retired employees as defined by West Virginia Code §5-16-2. In order to conform to the new GASB pronouncements, the WVOPEB Plan is administered in the West Virginia Retiree Health Benefit Trust Fund ("WVRHBT"), an irrevocable trust fund. WVRHBT issues a publicly available

West Virginia Water Development Authority

Notes to Financial Statements (Continued)

(10) Other Postemployment Benefits (Continued)

financial report that includes financial statements and required supplementary information for WVRHBT. That report may be obtained by writing to:

West Virginia Retiree Health Benefits Trust Fund
Building 5, Room 1001
1900 Kanawha Boulevard East
Charleston, WV 25305-0710

(11) General and Administrative Expenses

General and administrative expenses for the year ended June 30, 2007, are as follows:

Personal services	\$ 211,775
Legal	59,378
Trustee	50,363
Public employees insurance	35,543
Professional	34,574
Public employees retirement	34,216
Office supplies/printing	10,664
Travel	10,447
Building	9,901
Utilities	9,422
Telecommunications	9,249
Advertising	4,424
Janitorial	4,320
Rental	4,320
Payroll taxes	3,520
Insurance	2,544
Administrative	2,400
Training and development	1,687
Computer supplies	1,446
Miscellaneous	1,401
	<u>1,401</u>
	<u>\$ 501,594</u>

West Virginia Water Development Authority

Notes to Financial Statements (Continued)

(12) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters.

The Authority has obtained coverage for job-related injuries of employees and health coverage for its employees through its participation in Brickstreet Mutual Insurance Company (“Brickstreet”) and the West Virginia Public Employees Insurance Agency (“PEIA”). In exchange for the payment of premiums to Brickstreet and PEIA, the Authority has transferred its risk related to job-related injuries and health coverage for employees.

The Authority participates in the West Virginia Board of Risk and Insurance Management to obtain coverage for general liability, property damage, business interruption, errors and omissions, and natural disasters. Coverage is offered in exchange for an annual premium.

(13) Segment Information

The presentation of segment information for the Authority, which follows, conforms with the requirements of GASB Statement No. 37, “Basic Financial Statements - and Management’s Discussion and Analysis – for State and Local Governments: Omnibus.”

Loan Program I includes Series 2002 A and 2003 A Water Development Revenue Refunding Bonds. Loan Program II includes Series 2003 A Water Development Revenue Bonds and Series 2003 B, 2003 C, 2003 D, 2005 A, 2005 B and 2006 A Water Development Revenue Refunding Bonds. Loan Program III includes Series 2000 A and 2000 B Water Development Revenue Bonds. Loan Program IV includes Series 2005 A and 2005 B Water Development Revenue Bonds.

West Virginia Water Development Authority

Notes to Financial Statements (Continued)

(13) Segment Information (Continued)

	<u>Loan Program I</u>	<u>Loan Program II</u>	<u>Loan Program III</u>
Assets:			
Current	\$ 1,307,208	\$ 4,658,633	\$ 868,005
Noncurrent - other	-	-	-
Restricted	28,046,371	144,228,053	31,007,146
Capital	-	-	-
Total assets	29,353,579	148,886,686	31,875,151
Liabilities:			
Current	1,130,156	4,617,476	1,547,208
Long-term	23,654,270	136,503,612	27,586,270
Total liabilities	24,784,426	141,121,088	29,133,478
Net assets:			
Restricted	4,392,101	7,724,441	3,420,876
Unrestricted	177,052	41,157	(679,203)
Invested in capital assets	-	-	-
Total net assets	\$ 4,569,153	\$ 7,765,598	\$ 2,741,673
Operating revenues:			
Charges for services	\$ 2,211,238	\$ 9,290,082	\$ 1,571,540
Recovery of uncollectible loans and service charges	-	-	-
Operating expenses:			
Depreciation	-	-	-
Amortization	27,567	94,620	38,779
General and administrative	-	13	-
Allocation of general and administrative	55,438	261,032	56,794
Operating income (loss)	2,128,233	8,934,417	1,475,967
Nonoperating revenues (expenses):			
Interest and investment revenue, net of arbitrage	(72,641)	704,851	167,004
Interest expense	(1,591,607)	(7,446,055)	(1,761,974)
Transfers (net)	(396,218)	(828,457)	(137,949)
Change in net assets	67,767	1,364,756	(256,952)
Beginning net assets	4,501,386	6,400,842	2,998,625
Ending net assets	\$ 4,569,153	\$ 7,765,598	\$ 2,741,673
Net cash provided (used) by:			
Operating activities	\$ 2,451,270	\$ 10,581,786	\$ 2,297,119
Noncapital financing activities	(2,503,368)	(11,392,349)	(2,449,299)
Investing activities	50,242	748,703	143,628
Beginning cash and cash equivalents	61,294	377,216	1,665,325
Ending cash and cash equivalents	\$ 59,438	\$ 315,356	\$ 1,656,773

West Virginia Water Development Authority

Notes to Financial Statements (Continued)

(13) Segment Information (Continued)

	<u>Loan Program IV</u>	<u>Supplemental</u>	<u>Total</u>
Assets:			
Current	\$ 1,036,027	\$ 16,273,539	\$ 24,143,412
Noncurrent - other	-	8,849,651	8,849,651
Restricted	48,923,676	10,554,005	262,759,251
Capital	-	742,758	742,758
Total assets	49,959,703	36,419,953	296,495,072
Liabilities:			
Current	894,660	11,875	8,201,375
Long-term	48,886,832	306,046	236,937,030
Total liabilities	49,781,492	317,921	245,138,405
Net assets:			
Restricted	36,844	10,554,005	26,128,267
Unrestricted	141,367	24,805,269	24,485,642
Invested in capital assets	-	742,758	742,758
Total net assets	\$ 178,211	\$ 36,102,032	\$ 51,356,667
Operating revenues:			
Charges for services	\$ 2,524,312	\$ 230,463	\$ 15,827,635
Recovery of uncollectible loans and service charges	-	1,800	1,800
Operating expenses:			
Depreciation	-	31,562	31,562
Amortization	24,721	-	185,687
General and administrative	-	501,581	501,594
Allocation of general and administrative	91,741	(465,005)	-
Operating income (loss)	2,407,850	164,125	15,110,592
Nonoperating revenues (expenses):			
Interest and investment revenue, net of arbitrage	12,154	789,379	1,600,747
Interest expense	(2,303,973)	-	(13,103,609)
Transfers (net)	(41,825)	1,404,449	-
Change in net assets	74,206	2,357,953	3,607,730
Beginning net assets	104,005	33,744,079	47,748,937
Ending net assets	\$ 178,211	\$ 36,102,032	\$ 51,356,667
Net cash provided (used) by:			
Operating activities	\$ 2,765,047	\$ 2,103,364	\$ 20,198,586
Noncapital financing activities	(2,777,156)	-	(19,122,172)
Investing activities	12,211	766,364	1,721,148
Beginning cash and cash equivalents	1,228	12,263,594	14,368,657
Ending cash and cash equivalents	\$ 1,330	\$ 15,133,322	\$ 17,166,219

Audited Agency West Virginia Water Development Authority

Per GASB Statement 40 the Institution must disclose its deposit policy. The deposit policy must be formally adopted through legal or contractual provisions. Disclosure of any statutory policies are also required. Please provide in the space below the Institution's deposit policy.
 Please see footnote (3) to the audited financial statements.

	Carrying Amount	Restricted Carrying Amount	Total Carrying Amount	Bank Balance	Insured Amount	Collateralized Amount	Foreign Currency Risk									
							2 Amount collateralized with securities held by the pledging financial institution's trust department or agent in the name of the depositor	3A - Amount Uninsured and Uncollateralized	3B - Collateralized with securities held by the pledging financial institution but not in the name of the depositor	3C - Collateralized with securities held by the pledging financial institution trust department or agency but not in the name of the depositor	Currency Type	Maturity	Fair Value			
Cash with Treasurer	85,817		85,817													
Per Opening Balance Report		57,833	57,833													
Restricted cash with trustee																
Total	85,817	57,833	147,710					57,833								0

STATE OF WEST VIRGINIA
 DEPARTMENT OF REGISTRATION - FINANCE DIVISION
 FINANCIAL ACCOUNTING AND REPORTING SECTION
 GAAP REPORTING FORM - INVESTMENTS DISCLOSURE

Audited Agency: West Virginia Water Development Authority

Per GASB Statement 40 the Institution must disclose its investment policy. The investment policy must be formally adopted through legal or contractual provisions. Disclosure of any statutory policies are also required. Please provide in the space below the Institution's investment policy
 Please see footnote (3) to the audited financial statements.

Investments with Investment Mgmt Board (IMB) Per Opening Balance Report As of 6/30/07 Investments with Board of Treasury Investments (BTI) Per Opening Balance Report As of 6/30/07 Investments Outside IMB:	Reported Amount Unrestricted	Reported Amount Restricted	Custodial Credit Risk			Fair Value	Interest Rate Risk - Segmented Time Distribution Investment Maturities (in years)					Foreign Currency Risk						
			Category 1 (Based on reported amount)	Category 2	Category 3 (Not Subject to Collateralization Amount**)		Not Subject to Collateralization	Standard & Poor's	Credit Ratings	Moody's	Fitch		Less than 1	1-5	6-10	More than 10	Currency Type	Maturity
U.S. Treasury Obligations	1,200,000		1,200,000			1,200,000	(F)											1,200,000
U.S. Government Agencies	1,597,094		1,597,094			1,597,094	(F)											1,597,094
Mutual Money Market Funds	15,943,444	377,971				15,421,415	(F)											15,421,415
Repurchase Agreements ****	15,628,056	3,183,018	12,443,038			15,628,056	(F)											15,628,056
Total	16,243,444	17,601,121	4,383,018	14,040,132	0	15,421,415												33,644,265

**** MUST COMPLETE THE BELOW INFORMATION IF REPURCHASE AGREEMENTS WERE IDENTIFIED ABOVE:

Collateral Description on the Repurchase Agreements	Fair Market Value of Collateral	Standard & Poor's	Credit Ratings	Moody's	Fitch	Interest Rate Risk - Segmented Time Distribution Investment Maturities (in years)		
						Less than 1	1-5	More than 10
U.S. Treasury Bonds	3,653,111	N/A	N/A	N/A	N/A		1,425,321	2,497,790
Government National Mortgage Association	15,632	N/A	N/A	N/A	N/A			15,632
Federal Home Loan Mortgage	1,395,095	(1)	(1)	(1)	(1)		338,137	1,395,095
US Veterans Affairs Fed REMIC	2,218,871	(1)	(1)	(1)	(1)			1,650,734
Federal National Mortgage Association	6,613,658	(1)	(1)	(1)	(1)		815,801	9,629,927
FNMA	1,819,425	(1)	(1)	(1)	(1)			1,819,495
FHM	2,253,056	(1)	(1)	(1)	(1)			2,503,005

(1) These are mortgage-backed securities guaranteed by different federal agencies and which hold an implied AAA rating due to the guaranty of payment by the respective federal agency.

GAAP REPORTING FORM - DEPOSITS AND INVESTMENTS RECONCILIATION

Audited Agency West Virginia Water Development Authority

Reconciliation of cash, cash equivalents and investments as reported in the financial statements to the amounts disclosed in the footnote:

Deposits:

Cash and cash equivalents as reported on balance sheet	\$ 17,166,219
Less: cash equivalents disclosed as investments	<u>(17,018,509)</u>

Carrying amount of deposits as disclosed on Form 7	<u>\$ 147,710</u>
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Investments:

Investments as reported on balance sheet	\$ 1,200,000
Add: restricted assets disclosed as investments	15,626,056
Add: cash equivalents disclosed as investments	<u>17,018,509</u>

Reported amount of investments as disclosed on Form 8	<u>\$ 33,844,565</u>
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
West Virginia Water Development Authority
Charleston, West Virginia

We have audited the financial statements of the West Virginia Water Development Authority (the Authority) as of and for the year ended June 30, 2007, and have issued our report thereon dated September 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

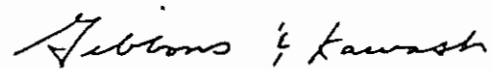
A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information of the Authority's board, audit committee, management, and the State of West Virginia and is not intended to be and should not be used by anyone other than these specified parties.



September 28, 2007