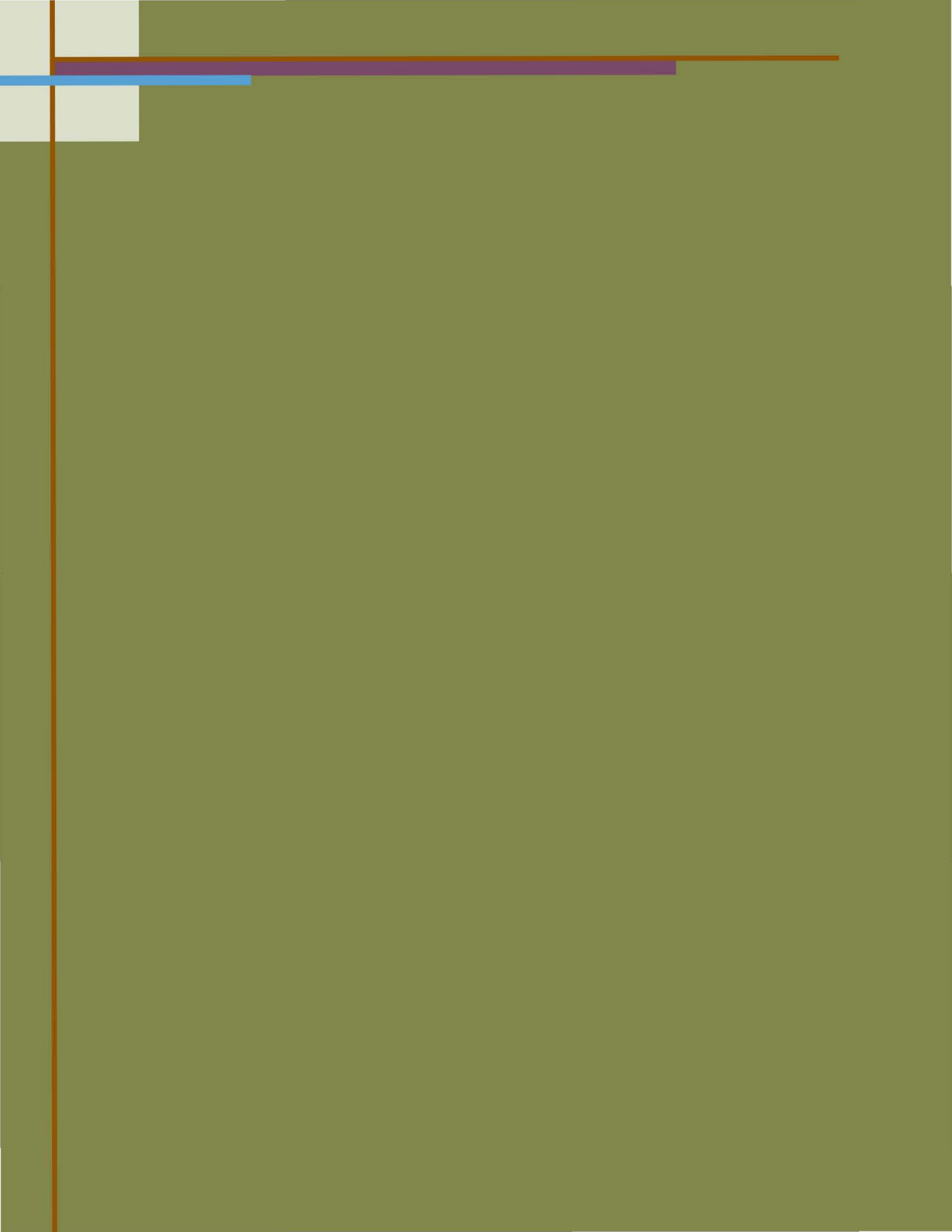




*West Virginia Economic Development Authority*

*2010  
Annual  
Report*



## Table of Contents

<b>The Mission of the West Virginia Economic Development Authority.....</b>	<b>1</b>
<b>Direct Loan Program .....</b>	<b>2</b>
Summary of Loans .....	3
Participating Sponsors .....	5
Participating Lenders .....	5
Loan Insurance Program.....	5
<b>Industrial Development/Industrial Bond Program.....</b>	<b>6</b>
<b>Independent Auditors' Report.....</b>	<b>8</b>
Financial Highlights .....	9
Overview of the Financial Statements.....	9
Financial Analysis of the Authority .....	10
Statement of Net Assets.....	10
Statement of Activities .....	11
Capital Asset and Debt Administration .....	12
Currently Known Facts and Conditions Having a Significant Effect on Financial Position .....	12
<b>Financial Statements .....</b>	<b>13</b>
Balance Sheets – June 30, 2010 and 2009 .....	13
Revenues, Expenses and Changes in Net Assets – June 30, 2010 and 2009.....	14
Cash Flows – June 30, 2010 and 2009 .....	15
Notes to Financial Statements.....	16
<b>Board of Directors .....</b>	<b>33</b>
<b>WVEDA Staff and Consultants.....</b>	<b>34</b>



## A POSITIVE BUSINESS CLIMATE

West Virginia has thrived on traditional energy and manufacturing industries such as coal, chemicals and polymers, aerospace, automotive and wood products. All of these remain valued contributors to the state's economic health.

Today, the state's economy is one that also includes innovation-driven, technology-based businesses, piloted by a highly-skilled West Virginia work force. More than \$13.6 billion in new business investments have been made in West Virginia's economy since 2005.

Global companies like Amazon.com, Bayer, Coldwater Creek, Dow, DuPont, Lockheed Martin, NGK, Toyota and Pratt & Whitney have discovered the advantages of locating in West Virginia. A growing number of companies leading advances in biometrics, biotechnology, information technology and renewable energy now operate in the state.

The state closed its 2010 fiscal year with a surplus of more than \$102 million. This is the fifth year in a row with a surplus – without a tax increase. Our approach to responsible government has produced a positive business climate and is clearing the way for business growth through tax cuts, workers' compensation reform and investment in university research and other strategic economic development initiatives.

As economic markets regain their strength, West Virginia is well positioned as the ideal location for new and expanding companies that are seeking a capable, flexible and dedicated work force.

Sincerely,

A handwritten signature in black ink that reads "Earl Ray Tomblin".

Earl Ray Tomblin  
Governor of West Virginia

# The Mission of the West Virginia Economic Development Authority

*The mission of the West Virginia Economic Development Authority (WVEDA) is to provide financial assistance and credit enhancement enabling a favorable environment for job creation and retention for businesses in West Virginia.*

*The Authority is charged with oversight and administration in four broad areas:*

- Direct lending, credit enhancements and financing incentives designed to attract and retain employment-creating enterprises in the state
- Certification of and performance monitoring on the qualified venture capital firms under the West Virginia Venture Capital Program
- Administration of allocations for tax-preferred Industrial Development Bonds, Recovery Zone Economic Development Bonds and Recovery Zone Economic Development Facility Bonds
- Administration of several West Virginia Tax Credits

The Authority continues to strive to provide even more innovative uses of its limited resources to produce the greatest benefit to the citizens of our state.

The WVEDA Board of Directors meets monthly to consider loan requests, and the staff is ready to assist prospective borrowers in preparing loan applications.

Additional information about WVEDA and its programs may be found on our Web site, at [www.wveda.org](http://www.wveda.org).

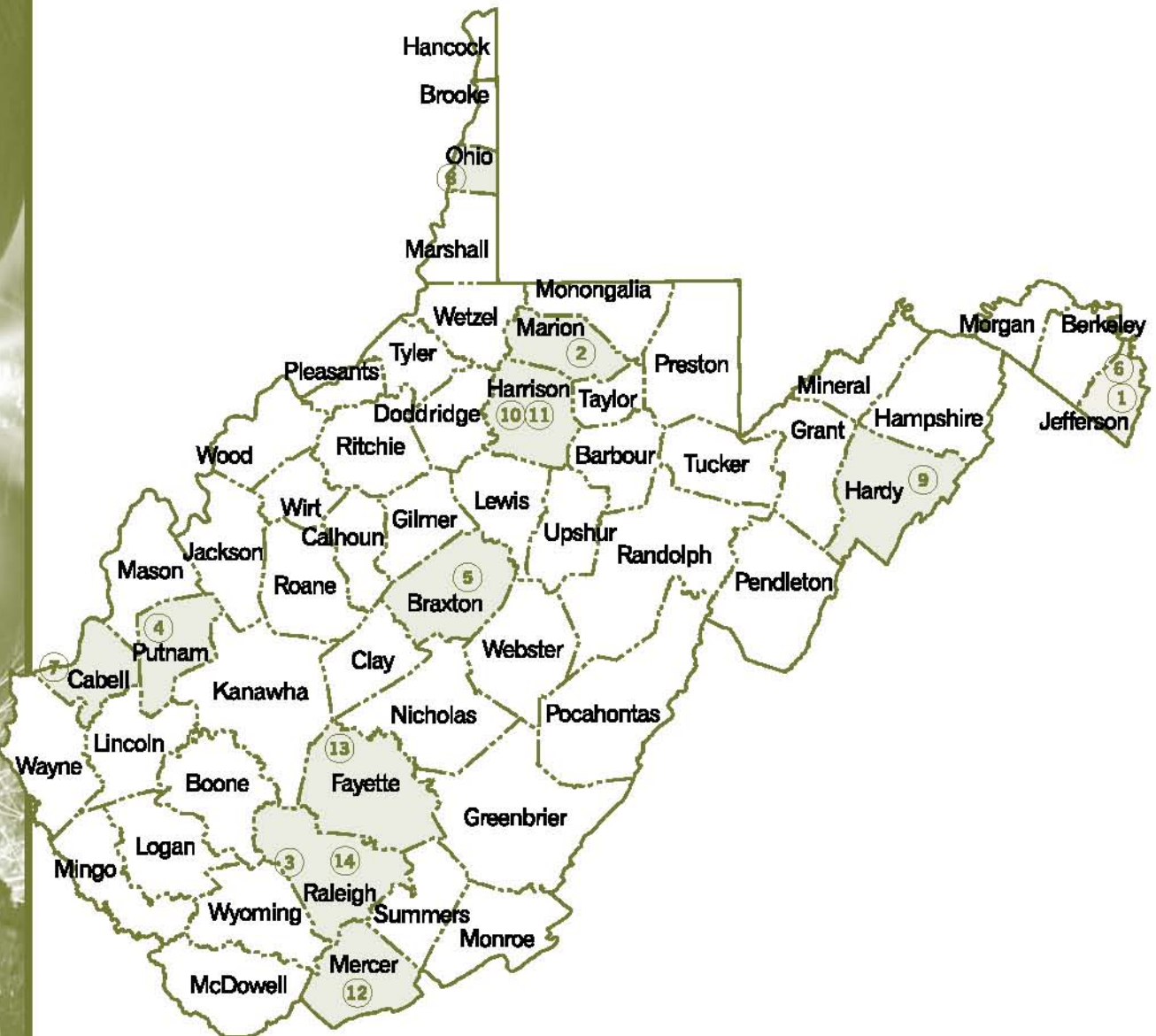


*The staff, seated from left – Tony Benedetto, David A. Warner, Joey D. Browning, J. Steven Webb  
Standing from left – Beverly S. Dolin, Erin C. McCoy, Caren D. Wilcher, Jackie A. Browning, Deborah J. Orcutt, Sarah B. Hartwell*

## Direct Loan Program

The Authority makes low interest direct loans to business entities to assist in the establishment, revitalization and expansion of industry in the state. The Authority loans up to 45 percent of the eligible cost of real property and equipment. Equity and private sector lending make up the remaining 55 percent.

The following is a summary of new loans approved during the year. Fourteen loans totaling \$42 million were approved, leveraging a total of \$20 million and providing for 417 new job opportunities over the next three years.



## Summary of Loans Approved by WVEDA – Fiscal Year 2009-2010

Approval Date	Project	Total Project Cost	WVEDA	Current Jobs	No. of Jobs Third Year
<b>1</b> 07/16/09	<b><i>Summit Point Ventures, LLC</i></b> Charles Town, Jefferson County Designs, engineers, manufactures and resells performance enhancement systems for luxury vehicles New	\$ 2,304,000	\$ 1,003,050	12	22
<b>2</b> 07/16/09	<b><i>Fairmont Tools, Inc.</i></b> Fairmont, Marion County Manufacturer of machined and fabricated parts Expansion	5,100,000	1,620,000	22	45
<b>3</b> 09/17/09	<b><i>Bolt Properties, LLC (Cogar Manufacturing, Inc.)</i></b> Bolt, Raleigh County Manufacturer and distributor of equipment primarily related to the underground mining industry Expansion	1,000,000	442,350	12	30
<b>4</b> 10/15/09	<b><i>Diamond Electric Mfg. Corporation</i></b> Eleanor, Putnam County Manufacturer of automotive parts Expansion	6,000,000	3,000,000	109	163
<b>5</b> 11/19/09	<b><i>Braxton County Development Authority</i></b> Flatwoods, Braxton County Multi-tenant building Job Retention	293,300	131,985	7	7
<b>6</b> 12/17/09	<b><i>Randex Laboratories, Ltd.</i></b> Kearneysville, Jefferson County Developer and manufacturer of diagnostic reagents and systems New	1,160,000	522,000	0	50
<b>7</b> 12/17/09	<b><i>West Hills Development, LLC (DIRECTV)</i></b> Huntington, Cabell County Real estate development/holding company Inbound call center Expansion	11,032,570	4,324,000	697	797

## Summary of Loans Approved by WVEDA – Fiscal Year 2009-2010

<i>Approval Date</i>	<i>Project</i>	<i>Total Project Cost</i>	<i>WVEDA</i>	<i>Current Jobs</i>	<i>No. of Jobs Third Year</i>
<b>8</b> 01/21/10	<b><i>TMT Real Estate (T K Innovation)</i></b> Wheeling, Ohio County Real estate holding company Manufacturer of laminated shim stock and finished cut laminated shims Expansion	\$ 495,000	\$ 247,500	2	8
<b>9</b> 02/18/10	<b><i>Grant County Mulch, Inc.</i></b> Baker, Hardy County Manufacturer of firewood Expansion	2,233,000	800,000	103	145
<b>10</b> 04/15/10	<b><i>Aluminum Services, Inc.</i></b> Clarksburg, Harrison County Manufacturer of customized aluminum coils and flat rolled products New	3,275,000	3,275,000	0	52
<b>11</b> 04/15/10	<b><i>Family Aluminum, LLC</i></b> Clarksburg, Harrison County Manufacturer of customized aluminum coils and flat rolled products New	1,700,000	1,700,000		Previously reported
<b>12</b> 05/20/10	<b><i>Smith Services, Inc.</i></b> Princeton, Mercer County Repairs and rebuilds electric motors Job Retention/Expansion	5,000,000	1,800,000	116	156
<b>13</b> 05/20/10	<b><i>Vintec Manufacturing, LLC</i></b> Gauley Bridge, Fayette County Machine shop Expansion	356,000	147,000	2	6
<b>14</b> 06/17/10	<b><i>Multifresh, Inc. dba Crook Brothers</i></b> Beckley, Raleigh County Produce wholesaler Expansion	2,100,000	800,000	30	48
<i>14 Loans</i>		<i>\$ 42,048,870</i>	<i>\$ 19,812,885</i>	<i>1,112</i>	<i>1,529</i>



## Participating Sponsors

*4-C Economic Development Authority*  
*Hardy County Rural Development Authority*  
*Harrison County Development Authority*  
*Huntington Area Development Corporation*  
*Jefferson County Development Authority*  
*Marion Regional Development Corp.*  
*Mercer County Development Authority*  
*Ohio Valley Industrial and Business Development Corporation*  
*Putnam County Development Authority*

## Participating Lenders

<i>Bank of Charles Town</i>	<i>Charles Town, WV</i>
<i>Branch Banking and Trust Company</i>	<i>Oak Hill, WV</i>
<i>Chase Bank</i>	<i>Clarksburg, WV</i>
<i>City National Bank</i>	<i>Beckley, WV</i>
<i>Grant County Bank</i>	<i>Petersburg, WV</i>
<i>The Huntington National Bank</i>	<i>Charleston, WV</i>
<i>MVB Bank, Inc.</i>	<i>Fairmont, WV</i>
<i>United Bank</i>	<i>Huntington, WV</i>

## Loan Insurance Program

WVEDA's Loan Insurance Program insures a portion of commercial loans issued to businesses after the loans are conditionally approved by banks. WVEDA will generally insure 80 percent of a loan up to \$500,000 for a term not greater than four years. This program is available through any state financial institution that chooses to apply for participation.

### Loan Insurance Program Activity – Fiscal Year 2009-2010

<i>Company Name</i>	<i>Amount of Insurance</i>	<i>Number of Jobs</i>	
		<i>Retained</i>	<i>Created</i>
<b>Troy, LLC</b> Harrisville, Ritchie County Manufacturer of non-woven textiles	\$ 400,000	41	19

## Industrial Development/Industrial Revenue Bond Program

The Authority participates in bond financing programs either as a conduit issuer (Group 1) or by approving allocation from West Virginia's cap for bonds issued by counties (Group 2).

- Group 1.** The Authority is statutorily empowered to issue tax-exempt or taxable bonds in its name to assist in financing qualifying industrial projects in West Virginia. Some of these bonds may be authorized by Internal Revenue Code section 146, and the Industrial Development and Commercial Development Bond Act.
- Group 2.** The Authority administers the Industrial Revenue Bond program authorized by Internal Revenue Code section 146, and the Industrial Development and Commercial Development Bond Act. These tax-exempt bonds are issued by local issuing agencies pursuant to a statewide maximum defined by the federal code. Issues under this program may be either for a single project or a "composite issue" for a group of projects.

# Industrial Development Bonds Issued – Fiscal Year 2009-2010

<b>Group 1</b>		
<i>Company</i>	<i>Amount</i>	<i>Closing Date</i>
<i>West Virginia Economic Development Authority Lease Revenue Bonds</i> <b>State Office Building (Greenbrooke) &amp; Parking Lot</b> 2009 Series Kanawha County	\$ 11,015,000	09/10/09
<i>West Virginia Economic Development Authority Solid Waste Disposal Facilities Revenue Bonds</i> <b>Appalachian Power Company – Amos Project</b> Series 2009A Putnam County	\$ 54,375,000	11/24/09
<i>West Virginia Economic Development Authority Solid Waste Disposal Facilities Revenue Bonds</i> <b>Appalachian Power Company – Amos Project</b> Series 2009B Putnam County	\$ 50,000,000	11/24/09
<i>West Virginia Economic Development Authority Solid Waste Disposal Facilities Revenue Bonds</i> <b>Ohio Power Company – Amos Project</b> Series 2010A Putnam County	\$ 86,000,000	03/24/10
<i>West Virginia Economic Development Authority Solid Waste Disposal Facilities Revenue Refunding Bonds</i> <b>Appalachian Power Company – Amos Project</b> Series 2010A Putnam County	\$ 50,000,000	05/19/10
<i>5 New Bonds</i>	\$ 251,390,000	
<b>Group 2</b>		
<i>None</i>		



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the West Virginia Economic Development Authority, a component unit of the State of West Virginia, as of and for the years ended June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the West Virginia Economic Development Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Economic Development Authority as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 to 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that 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.

A handwritten signature in cursive script that reads 'Suttle &amp; Stalnaker, PLLC'.

Charleston, West Virginia  
October 6, 2010

The Virginia Center • 1411 Virginia Street, East • Suite 100 • Charleston, WV 25301  
Phone (304)-343-4126 or 1-(800)-788-3844 • Fax (304)-343-8008  
Towne Square • 201 Third Street • PO Box 149 • Parkersburg, WV 26102  
Phone (304)-485-6584 • Fax (304)-485-0971  
[www.suttlecpas.com](http://www.suttlecpas.com) • E-mail: [cpa@suttlecpas.com](mailto:cpa@suttlecpas.com)  
A Professional Limited Liability Company

# Discussion and Analysis of Financial Performance

This section of the West Virginia Economic Development Authority's (the Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year ended on June 30, 2010. Please read it in conjunction with the Authority's financial statements and accompanying notes.

## Financial Highlights

- The Authority's total net assets increased \$1.70 million
- Total assets increased by \$7.12 million
- Loan and lease originations for the year totaled \$27.81 million

## Overview of the Financial Statements

The annual financial statements consist of two parts: Management's Discussion and Analysis (this section) and the basic financial statements.

- The Authority's financial statements provide information about the overall financial position and results of operations. These statements, which are presented on the accrual basis, consist of Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows.
- The basic financial statements also include "Notes to the Financial Statements" which provide explanations and additional information related to amounts reported in the financial statements.

The remainder of this overview section of management's discussion and analysis explains the structure and content of each of the financial statements. The prior year results referred to throughout this section for comparison purposes are as previously reported.

The financial statements report information about the Authority's use of accounting methods similar to those used by private sector companies. These financial statements are presented in a manner similar to a private business, such as real estate development, investment banking, commercial lending, construction management, and private consulting.

## Financial Analysis of the Authority

*Statement of Net Assets:* The following table summarizes the changes in the Statement of Net Assets between June 30, 2010, 2009, and 2008.

	<i>(in millions)</i>			<i>% Change</i>
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>FY 10-09</i>
Current assets	\$ 61.74	\$ 61.65	\$ 53.24	0.15%
Noncurrent assets	<u>228.96</u>	<u>221.93</u>	<u>207.92</u>	3.17
Total assets	290.70	283.58	261.16	2.51
Current liabilities	12.06	11.23	9.27	7.39
Noncurrent liabilities	<u>152.54</u>	<u>147.95</u>	<u>129.48</u>	3.10
Total liabilities	164.60	159.18	138.75	3.40
Net assets:				
Invested in capital assets, net of related debt	22.66	22.77	15.20	(0.48)
Restricted	8.92	8.91	8.80	0.11
Unrestricted	<u>94.52</u>	<u>92.72</u>	<u>98.41</u>	1.94
Total net assets	<u>126.10</u>	<u>124.40</u>	<u>122.41</u>	1.37
Total liabilities and net assets	<u>\$ 290.70</u>	<u>\$ 283.58</u>	<u>\$ 261.16</u>	2.51%

The Authority's overall net assets increased by \$1.70 million. Total assets increased \$7.12 million and total liabilities increased by \$5.42 million. The primary factor for this increase in liabilities was due to additional funds borrowed from the West Virginia Board of Treasury Investments (BTI), a governmental agency, with which the Authority maintains a line of credit.

*Statement of Activities:* The following table summarizes the changes in Operating Income between fiscal years 2010, 2009, and 2008.

	<i>(in millions)</i>			<i>% Change</i>
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>FY 10-09</i>
Operating revenues:				
Interest on loans	\$ 5.86	\$ 5.98	\$ 6.39	(2.01) %
Lease revenue	3.65	3.20	3.19	14.06
Other	0.00	2.07	.21	(100.00)
Total operating revenues	<u>9.51</u>	<u>11.25</u>	<u>9.79</u>	(15.47)
Operating expenses:				
Administrative	1.30	1.30	1.95	0.00
Depreciation	1.04	1.02	.89	1.96
Provision for loan losses	1.46	2.40	.27	(39.17)
Other expense	.26	-	-	100.00
Loan guarantee claim expense	0.00	0.00	3.04	0.00
Loss due to asset assessment	.35	0.40	0.00	(12.5)
Total operating expenses	<u>4.41</u>	<u>5.12</u>	<u>6.15</u>	(13.87)
Operating income	<u>5.10</u>	<u>6.13</u>	<u>3.64</u>	(16.80)
Non-operating revenue (expense):				
Interest on invested cash	1.46	1.81	2.90	(19.34)
Interest expense	(4.86)	(5.95)	(5.48)	(18.32)
Noncash contribution, on behalf payment	0.00	0.00	.01	0.00
Change in accounting principle	0.00	0.00	.07	0.00
Total nonoperating expense	<u>(3.40)</u>	<u>(4.14)</u>	<u>(2.50)</u>	(17.87)
Net income	1.70	1.99	1.14	(14.57)
Net assets, beginning of year	<u>124.40</u>	<u>122.41</u>	<u>121.27</u>	1.63
Net assets, end of year	<u>\$ 126.10</u>	<u>\$ 124.40</u>	<u>\$ 122.41</u>	1.37 %

Within the Authority's activities, the primary revenue sources are interest income on active loans and lease revenue. Non-operating revenue includes interest income on invested cash. The primary expense is interest expense on debt incurred with the BTI. Total revenues exceeded total expenses by \$1.70 million.

During 2010, the Authority had write-offs of uncollectible loans of \$1.46 million, or 0.93% of the total loans. The Authority recovered assets in the amount of \$177,000. The allowance for loan loss is 3.68% of the total loan portfolio at June 30, 2010.

## Capital Asset and Debt Administration

**Capital Assets** The Authority independently, or in cooperation with private and/or other governmental entities, acquires, invests in and/or develops vacant industrial sites, existing facilities, unimproved land, equipment and other real estate for private or governmental use. Sites developed and equipment purchased for private use are marketed or leased to businesses that will create new job opportunities and tax ratables for the municipalities. Sites developed for governmental use are leased to the State or State entities. For the majority of these leases, future minimum lease rental payments are equal to the debt service payments related to the bonds or notes issued for the applicable property.

**Capital Debt** Total notes payable increased by \$4.89 million, which was directly related to additional borrowing on our line of credit with BTI to finance loans and leases for economic development purposes.

## Currently Known Facts and Conditions Having a Significant Effect on Financial Position

The Authority was the conduit issuer of WV Economic Development Authority commercial development revenue bonds (Stonewall Jackson Lake State Park project) series 2000A and 2000B. These bonds have continued to be in payment default since April 1, 2006. Although these bonds do not represent a liability for the Authority or the State of West Virginia, the Authority did make a direct loan to the WV Division of Natural Resources for capital improvements made at Stonewall Jackson Lake State Park in the amount of \$5.2 million. The default on the series 2000A and 2000B bonds does inject uncertainty on the future repayment of the Authority's direct loan. Project developers have established a private foundation to assist with capital formation for the long term betterment of the project and are also pursuing additional private lodging to enhance project revenues. WVEDA staff believes it is too early to determine if impairment of the Authority's asset will occur, but the Authority has increased its reserves to recognize current events.

During fiscal year ending June 30, 2010, the Authority incurred an extraordinary loss, in the amount of \$264,088, on a building that is partially owned by the Authority as a result of a joint foreclosure with a bank. The write down in value was due to a water main break inside the building that caused extensive damage to the interior. The Authority was fully insured on this building and expects to receive insurance proceeds equal to the loss, during fiscal year ending June 30, 2011.



# Financial Statements

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

## Balance Sheets June 30, 2010 and 2009

	2010	2009
<i>Assets</i>		
Current assets		
Cash and cash equivalents	\$ 45,984,835	\$ 47,343,922
Restricted cash due to others	288,780	288,780
Current portion of loans receivable, net of allowance	7,194,815	6,289,025
Current portion of investment in direct financing leases	2,309,870	2,224,748
Accrued interest receivable	5,915,460	5,463,114
Other receivables	47,252	44,443
Total current assets	<u>61,741,012</u>	<u>61,654,032</u>
Noncurrent assets		
Investment	1,906,756	1,812,952
Restricted cash and cash equivalents	8,924,248	8,909,559
Loans receivable, less current portion	150,553,182	140,724,119
Investment in direct financing leases, less current portion	39,644,804	41,979,931
Real estate, property, and equipment, less accumulated depreciation	26,435,402	26,999,277
Land held for sale	1,494,322	1,499,322
	<u>228,958,714</u>	<u>221,925,160</u>
Total assets	<u>\$ 290,699,726</u>	<u>\$ 283,579,192</u>
<i>Liabilities and Net Assets</i>		
Current liabilities		
Accounts payable	\$ 62,709	\$ -
Other postemployment benefit payable	89,040	20,680
Accrued interest payable	317,499	393,690
Amounts due to other State agencies	50,351	50,351
Compensated absences	26,036	23,219
Current portion of loans payable	11,513,963	10,745,467
Total current liabilities	<u>12,059,598</u>	<u>11,233,407</u>
Noncurrent liabilities		
Accrued interest payable	3,322,479	2,560,768
Deferred lease revenue	2,613,616	2,902,771
Deferred grant revenue	281,780	281,780
Compensated absences	25,524	27,258
Loans payable, less current portion	146,291,882	142,171,586
	<u>152,535,281</u>	<u>147,944,163</u>
Total liabilities	<u>164,594,879</u>	<u>159,177,570</u>
Net assets		
Invested in capital assets, net of related debt	22,659,951	22,775,847
Restricted	8,924,248	8,909,559
Unrestricted	94,520,648	92,716,216
Total net assets	<u>126,104,847</u>	<u>124,401,622</u>
Total liabilities and net assets	<u>\$ 290,699,726</u>	<u>\$ 283,579,192</u>

## Statements of Revenues, Expenses, and Changes in Net Assets Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues		
Interest on loans	\$ 5,860,337	\$ 5,981,305
Lease revenue	3,652,344	3,195,883
Other	<u>3,285</u>	<u>2,074,704</u>
Total operating revenues	<u>9,515,966</u>	<u>11,251,892</u>
Operating expenses		
Administrative	1,299,927	1,299,279
Depreciation	1,035,493	1,018,418
Loss due to assessment of asset	350,000	400,000
Provision for loan losses	1,464,444	2,404,309
Other expense	<u>264,088</u>	<u>-</u>
Total operating expenses	<u>4,413,952</u>	<u>5,122,006</u>
Operating income	<u>5,102,014</u>	<u>6,129,886</u>
Nonoperating revenue (expense)		
Interest on invested cash	1,464,837	1,806,945
Interest expense	<u>(4,863,626)</u>	<u>(5,947,310)</u>
Total nonoperating revenue (expense)	<u>(3,398,789)</u>	<u>(4,140,365)</u>
Net income	<u>1,703,225</u>	<u>1,989,521</u>
Net assets, beginning of year	<u>124,401,622</u>	<u>122,412,101</u>
Net assets, end of year	<u>\$ 126,104,847</u>	<u>\$ 124,401,622</u>

## Statements of Cash Flows Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Cash receipts from lending and leasing activities	\$ 27,281,139	\$ 29,216,331
Cash receipts from other activities	-	2,274,367
Cash payments for:		
Loans and leases originated	(27,813,547)	(28,836,988)
Personnel expense	(857,699)	(718,960)
Administrative expense	(443,848)	(591,319)
Other expense	(95,076)	(143,326)
Loan insurance claim expense	1,620	11,000
Net cash provided by (used in) operating activities	(1,927,411)	1,211,105
Cash flows from non-capital financing activities		
Proceeds from loans payable	19,041,094	47,001,867
Principal payments on loans payable	(13,978,586)	(25,254,818)
Interest paid	(4,769,821)	(5,855,285)
Net cash provided by (used in) non-capital financing activities	292,687	15,891,764
Cash flows from capital and related financing activities		
Acquisition of real estate and equipment	(1,085,705)	(7,010,310)
Interest paid	(93,781)	(92,025)
Proceeds from sale of land	5,000	1,311,300
Net cash provided by (used in) capital financing activities	(1,174,486)	(5,791,035)
Cash flows provided by investing activities		
Purchase of investments	-	(1,032,422)
Interest received	1,464,812	1,856,885
Net cash provided by (used in) investing activities	1,464,812	824,463
Net increase (decrease) in cash and cash equivalents	(1,344,398)	12,136,297
Cash and cash equivalents (including restricted cash), beginning of year	56,542,261	44,405,964
Cash and cash equivalents (including restricted cash), end of year	\$ 55,197,863	\$ 56,542,261
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating income	\$ 5,102,014	\$ 6,129,886
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Loans and leases originated	(27,813,547)	(28,836,988)
Principal collected on loans	16,679,579	19,571,480
Collections on net investment in direct financing leases	2,514,093	1,278,205
Depreciation	1,035,493	1,018,418
Provision for loan and lease losses	1,462,824	2,404,309
Recovery of assets	178,548	2,004,000
Loss due to assessment of asset	350,000	400,000
(Increase) decrease in accrued interest receivable	(452,271)	(1,446,090)
(Increase) in other receivables	(2,810)	(4,295)
Increase (decrease) in accounts payable	62,709	(8,554)
Increase (decrease) in accrued expenses	(754,888)	69,187
Increase (decrease) in deferred lease revenue	(289,155)	(289,155)
Increase (decrease) in advance on loan	-	(1,079,298)
Net cash provided by operating activities	\$ (1,927,411)	\$ 1,211,105
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 4,863,626	\$ 5,947,310

## Notes to Financial Statements

### **NOTE 1 – Description of Organization and Summary of Significant Accounting Policies**

#### *Reporting Entity*

The West Virginia Economic Development Authority (the Authority) is a public corporation and government instrumentality under Chapter 31, Article 15, of the West Virginia Code (the Act). The Authority is administered by a nine-member Board of Directors comprised of the Governor, Tax Commissioner, and seven at-large members appointed by the Governor. The Authority has statutory authority to borrow funds from the West Virginia Board of Treasury Investments to loan to borrowers.

Under the Act, the Authority is charged with the responsibility to develop and advance the business prosperity and economic welfare of the State of West Virginia. It provides financial assistance in the form of loans and direct financing and operating leases to industrial development agencies and enterprises for the promotion and retention of new and existing commercial and industrial development. The Authority is empowered to borrow money and issue bonds, notes, commercial paper, and other debt instruments and to furnish money, credit, or credit enhancement for the promotion of business development projects. Credit enhancement is available through the Authority's loan guarantee programs which were created to insure payment or repayment of bonds and notes issued by the Authority and certain other public bodies, or other types of debt instruments entered into by an enterprise or state public body with a financial institution.

West Virginia Economic Development Authority loans are secured by deeds of trust on property, security interests in equipment, promissory notes, and in certain cases have supplemental collateral comprised of letters of credit, lease assignments, and/or personal guarantees. The Authority's loan terms are set by its Board of Directors (the Board) whose members periodically review market conditions. The amount the Authority may lend for projects varies depending upon the nature of the project and form of lending, as prescribed by the Board.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity is made by applying the criteria set forth in accounting principles generally accepted in the United States of America (GAAP) for governments. GAAP defines component units as those entities which are legally separate organizations for which the appointed members of the board are financially accountable, or the organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's statements to be misleading. Since none of the potential component unit organizations which meet the above criteria are material to the Authority, the Authority has reported no component units.

#### *Basis of Presentation*

The Authority is a component unit of the State of West Virginia, and is accounted for as a proprietary fund special purpose government engaged in business type activities. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," and with accounting principles generally accepted in the United States of America, the financial statements are prepared on the accrual basis of accounting which requires recognition of revenue when earned and expenses when incurred. As permitted by GASB Statement No. 20, Accounting and Financial Reporting for Proprietary 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. Because of the Authority's presentation in these financial statements as a special purpose government engaged in business-type activities, there may be differences in presentation of amounts reported in these financial statements and the basic financial statements of the State as a result of major fund determination.

## **NOTE 1 – Description of Organization and Summary of Significant Accounting Policies (continued)**

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and develop assumptions that affect the amounts reported in the financial statements and related notes to financial statements and actual results could differ from management's estimates. Significant estimates include the allowance for loan and lease losses and the depreciation of assets held for lease.

### *Cash and Cash Equivalents*

Cash and cash equivalents include short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of amounts on deposit with the State Treasurer's Office (STO) that are pooled funds managed by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools. Balances in the investment pools are recorded at fair value or amortized cost which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements. In addition, the Authority makes interest-earning deposits in certain investment pools maintained by BTI that are available to the Authority with overnight notice.

The BTI maintains the Consolidated Fund, which consists of five investment pools and participant-directed accounts, in which the state and local governmental agencies invest. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pools can be found in their respective annual reports. A copy of the annual report can be obtained from the following address: 1900 Kanawha Boulevard East, Room E-122, Charleston, West Virginia 25305 or <http://www.wvbt.com>.

Permissible investments for all agencies include those guaranteed by the United States of America, including its agencies and instrumentalities (U.S. Government obligations); corporate debt obligations, including commercial paper which meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements; asset-backed securities; certificate of deposit; state and local government securities (SLGS); and other investments. Other investments consist primarily of investments in accordance with the Linked Deposit Program, a program using financial institutions in West Virginia to obtain certificates of deposit, loans approved by the legislature and any other program investments authorized by the legislature.

### *Allowance for Loan Losses*

The Authority uses the allowance method of providing for loan losses. The provision for loan losses charged to operating expense is based on the Authority's past loan loss experience, and other factors which deserve current recognition in estimating possible losses, such as growth and composition of the loan portfolio, relationship of the allowance for loan losses to outstanding loans, current financial condition of the borrowers, changes in specific industries, and overall economic conditions.

Because of uncertainties in the estimation process, including local and industry economic conditions, as well as collateral values, it is reasonably possible that management's estimate of losses in the loan portfolio and the related allowance may materially change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

## NOTE 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

### *Real Estate and Equipment Held Under Lease*

Real estate and equipment held under lease are carried at cost or, if contributed, at the fair value of the property as of the date contributed. Depreciation on equipment and buildings is computed using the straight-line method with estimated useful lives of 10 and 39 years, respectively.

### *Compensated Absences*

Employees fully vest in all earned but unused annual leave and the Authority accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. The estimated obligation for such benefits, as they relate to employees of the Authority are recorded as a liability in the accompanying financial statements.

### *Other Postemployment Benefits*

Effective July 1, 2007, the Authority adopted GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. This statement provided standards for the measurement, recognition, and display of other postemployment benefit (“OPEB”) expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State of West Virginia. Effective July 1, 2007, the Authority was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston WV 25305-0710 or <http://www.wvpeia.com>.

Upon retirement, an employee may apply unused sick leave or annual leave, or both, to reduce their future insurance premiums paid to the West Virginia Public Employees Insurance Agency or to obtain a greater benefit under West Virginia Public Employees Retirement System. Substantially all employees hired prior to July 1, 2001, may become eligible for these benefits if they reach normal retirement age while working for the Authority. According to West Virginia State Code, employees hired prior to June 30, 1988, can receive health care credit against 100% of their health care coverage. Employees hired between June 30, 1988 and June 30, 2001, can receive health care credit against 50% of their health care cost. Employees hired July 1, 2001, or later, may not convert sick leave into a health care benefit.

### *Deferred Lease Revenue*

The Authority reports lease payments received in advance as deferred lease revenue and recognizes lease revenue over the remaining term of the lease.

### *Deferred Revenue - Grants*

The Authority reports grants received in advance for third-party recipients as deferred revenue-grants. Grant revenue and grant expense are recorded when qualifying disbursement of cash or other assets occurs.

### *Net Assets*

As required by GASB 34, the Authority displays net assets in three components, if applicable: invested in capital assets, net of related debt; restricted, and unrestricted.

**Investment in Capital Assets, Net of Related Debt** – This component of net assets consists primarily of capital assets, including restricted capital assets (if any), net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**NOTE 1 – Description of Organization and Summary of Significant Accounting Policies (continued)**

*Net Assets (continued):*

**Restricted Net Assets** – Restricted net assets are assets whose use or availability has been restricted and the restrictions limit the Authority’s ability to use the resources to pay current liabilities. When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, then unrestricted resources as needed.

**Unrestricted Net Assets** – Unrestricted net assets consist of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.” In the governmental environment, net assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints on resources are internal and management can remove or modify them. Such internal designations are not reported on the face of the statement of net assets.

*Operating Revenues and Expenses*

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

*Recent Statements Issued By GASB*

The Governmental Accounting Standards Board has issued Statement No. 59, Financial Instruments Omnibus, effective for fiscal years beginning after June 15, 2010. This statement improves financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards related to certain financial instruments and external investment pools. The Authority has not yet determined the effect that the adoption of Statement No. 59 may have on its financial statements.

**NOTE 2 – Cash and Investments**

The cash on deposit with the State Treasurer amounted to \$19,628,972 and \$16,240,887 at June 30, 2010 and 2009. This balance is immediately available to the Authority.

At June 30, 2010, the carrying amount and fair value of deposits with the State of West Virginia Board of Treasury Investments (BTI) was as follows:

	<i>2010</i>	<i>Percentage of Respective BTI Pool</i>
Amount on deposit with the BTI:		
WV Money Market Pool	\$ 20,601,983	0.73%
WV Government Money Market Pool	9,224,248	4.17%
WVEDA - Short-term Bond Pool	16,054,597	3.52%
WVEDA - American Woodmark	<u>1,906,756</u>	0.00%
	<u>\$ 47,787,584</u>	

## NOTE 2 – Cash and Investments (continued)

In accordance with West Virginia Code §31-15-23, the economic development fund, to which shall be credited any appropriation made by the Legislature to the authority, any funds which the authority is authorized to receive under any provision of this code, other funds which the board directs to be deposited into the fund, and such other deposits as are provided for in this section, is hereby continued in the state treasury as a special account. Whenever the authority determines that the balance in the fund is in excess of the immediate requirements for loans, it may request that such excess be invested until needed for loan purposes, in which case such excess shall be invested in a manner consistent with the investment of other temporary state funds. If the authority determines that funds held in the fund are in excess of the amount needed to carry out the purposes of this article, it may take such action as is necessary to release such excess and transfer it to the general fund of the treasury.

### *BTI Disclosure Information:*

#### *WV Money Market — Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the years ended June 30, 2010 and 2009, the WV Money Market Pool has been rated AAAm by Standard & Poor's. A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2010 and 2009, the WV Money Market Pool investments had a total carrying value of \$20,601,983 and \$15,902,951, respectively, of which the Authority's ownership represents 0.73% and 0.55%, respectively.

#### *WV Government Money Market Pool — Credit Risk*

For the years ended June 30, 2010 and 2009, the WV Government Market Pool has been rated AAAm by Standard & Poor's. A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

The BTI limits the exposure to credit risk in the WV Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2010 and 2009, the WV Government Money Market Pool investments had a total carrying value of \$9,224,248 and \$9,209,559, of which the Authority's ownership represents 4.17% and 3.25%, respectively.



## NOTE 2 – Cash and Investments (continued)

### *BTI Disclosure Information (continued):*

#### *WV Short Term Bond Pool — Credit Risk*

The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A by Standards & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standards & Poor's and P1 by Moody's. The following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

<i>Security Type</i>	<i>Credit Rating*</i>		<i>2010</i>		<i>2009</i>	
	<i>Moody's</i>	<i>S&amp;P</i>	<i>Carrying Value</i>	<i>Percent of Pool Assets</i>	<i>Carrying Value</i>	<i>Percent of Pool Assets</i>
Corporate asset backed securities	Aaa	AAA	\$24,330	5.37%	\$16,402	5.21%
	Aaa	NR *	10,353	2.28	5,136	1.63
	Aa3	AAA	1,000	0.22	223	0.07
	Aa2	AAA			461	0.15
	A3	AAA			273	0.09
	Baa2	AAA			831	0.26
	Baa1	BBB**			332	0.10
	Baa2	BBB**			1,376	0.44
	Ba1	CC**	45	0.01		
	Ba2	BB**	219	0.05		
	Ba3	AAA			645	0.20
	B1	AAA			779	0.25
	B1	BBB**	605	0.13		
	B1	CCC**	857	0.19		
	B2	B**			493	0.16
	B2	CCC**	366	0.08	539	0.17
	B3	AAA			949	0.30
	B3	B**	442	0.10		
	B3	BBB**	247	0.05		
	B3	CCC**	554	0.12		
	Caal	BB**			254	0.08
	Caal	CCC**	230	0.05		
	Caa2	CCC**	779	0.17		
	NR*	AAA	3,538	0.78	679	0.22
			<u>43,565</u>	<u>9.60</u>	<u>29,372</u>	<u>9.33</u>

**NOTE 2 – Cash and Investments (continued)***BTI Disclosure Information (continued):**WV Short Term Bond Pool — Credit Risk (continued):*

<i>Security Type</i>	<i>Credit Rating*</i>		<i>2010</i>		<i>2009</i>	
	<i>Moody's</i>	<i>S&amp;P</i>	<i>Carrying Value</i>	<i>Percent of Pool Assets</i>	<i>Carrying Value</i>	<i>Percent of Pool Assets</i>
Corporate bonds and notes	Aaa	AAA	72,549	16.00	47,204	14.99%
	Aaa	AA	2,060	0.46		
	Aa1	AA	5,430	1.20	4,445	1.41
	Aa1	A			2,052	0.65
	Aa2	AAA			3,040	0.96
	Aa2	AA	6,650	1.47	9,066	2.88
	Aa3	AA	6,722	1.48		
	Aa3	A	13,850	3.05	7,831	2.49
	A1	AA	15,485	3.41	4,813	1.53
	A1	A	21,098	4.65	5,522	1.75
	A2	A	41,093	9.06	32,040	10.17
	A3	A	4,158	0.92	7,024	2.23
	Baa3	A			2,067	0.66
			<u>189,095</u>	<u>41.70</u>	<u>125,104</u>	<u>39.72</u>
U.S. agency bonds	Aaa	AAA	40,180	8.86	60,250	19.13
U.S. Treasury notes***	Aaa	AAA	158,423	34.93	88,805	28.20
U.S. agency mortgage backed securities****	Aaa	AAA	4,540	1.00	4,975	1.58
Money market funds	Aaa	AAA	<u>17,715</u>	<u>3.91</u>	<u>6,426</u>	<u>2.04</u>
			<u>\$ 453,518</u>	<u>100%</u>	<u>\$ 314,932</u>	<u>100%</u>

\* *NR = Not Rated*\*\* *The securities were not in compliance with BTI Investment Policy at June 30, 2010. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.*\*\*\* *U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.*\*\*\*\* *U.S. agency mortgage backed securities are issued by the Government National Mortgage Association and are explicitly guaranteed by the United States government and are not subject to credit risk.*

At June 30, 2010 and 2009, the Authority's ownership represents 3.52% and 4.74%, respectively, of these amounts held by the BTI.

## NOTE 2 – Cash and Investments (continued)

### *BTI Disclosure Information (continued):*

#### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All the BTI's Consolidated Fund pools and accounts are subject to interest rate risk.

The overall weighted average maturity of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

<i>Security Type</i>	<b>2010</b>		<b>2009</b>	
	<i>Carrying Value (In thousands)</i>	<i>WAM (Days)</i>	<i>Carrying Value (In thousands)</i>	<i>WAM (Days)</i>
Repurchase agreements	\$ 174,980	1	\$ 212,010	1
U.S. Treasury notes	65,153	140		
U.S. Treasury bills	476,670	35	483,714	69
Commercial paper	855,844	18	592,479	32
Certificates of deposit	281,000	45	128,402	56
U.S. agency discount notes	606,048	52	635,602	57
Corporate bonds and notes	20,000	19	73,812	38
U.S. agency bonds/notes	246,990	55	294,019	70
Money market funds	150,026	1	150,223	1
	<u>\$ 2,876,711</u>	<u>33</u>	<u>\$ 2,570,261</u>	<u>47</u>

The overall weighted average maturity of the investments of the WV Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the WV Government Money Market Pool:

<i>Security Type</i>	<b>2010</b>		<b>2009</b>	
	<i>Carrying Value (In thousands)</i>	<i>WAM (Days)</i>	<i>Carrying Value (In thousands)</i>	<i>WAM (Days)</i>
Repurchase agreements	\$ 66,600	1	\$ 53,400	1
U.S. Treasury notes	8,526	114	-	-
U.S. Treasury bills	29,982	72	29,929	58
U.S. agency discount notes	36,465	115	43,249	77
U.S. agency bonds/notes	79,532	30	60,420	84
Money market funds	78	1	66	1
	<u>\$ 221,183</u>	<u>44</u>	<u>\$ 187,064</u>	<u>54</u>

**NOTE 2 – Cash and Investments (continued)***BTI Disclosure Information (continued):**Interest Rate Risk (continued):*

The overall effective duration of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum maturity of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool at June 30, 2010 and 2009:

<i>Security Type</i>	<b>2010</b>		<b>2009</b>	
	<i>Carrying Value (in Thousands)</i>	<i>Effective Duration (Days)</i>	<i>Carrying Value (in Thousands)</i>	<i>Effective Duration (Days)</i>
U. S. Treasury bonds/notes	\$ 158,423	583	\$ 88,805	917
Corporate notes	189,095	560	125,104	559
Corporate asset backed securities	43,565	679	29,372	622
U.S. agency bonds/notes	40,180	288	60,250	752
U.S. agency mortgage backed securities	4,540	360	4,875	540
Money market funds	17,715	1	6,426	1
	<u>\$ 453,518</u>	<u>530</u>	<u>\$ 314,832</u>	<u>691</u>

*Other Investment Risks*

Other investment risks include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks as described below.

Concentration of credit risk is the risk of loss attributed to the magnitude of the BTI's Consolidated Fund pool or account's investment in a single corporate issuer. The BTI investment policy prohibits those pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name or one corporate issue.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the BTI's statement of fiduciary net assets is invested in the lending agent's money market fund in the BTI's name. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

*Deposits*

Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include non-negotiable certificates of deposit. None of the above pools contain nonnegotiable certificates of deposit. The BTI does not have a deposit policy for custodial credit risk.

## NOTE 2 – Cash and Investments (continued)

### *BTI Disclosure Information (continued):*

#### *Investments and Deposits*

The BTI has adopted an investment policy in accordance with the “Uniform Prudent Investor Act.” The “prudent investor rule” guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI’s investment policy to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of the Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the Consolidated Fund.

#### *Separate Investment Account*

##### *WV Economic Development Authority – American Woodmark*

This account holds only a U.S. Treasury bond that matures on August 15, 2023 in the amount of approximately \$1,906,756. The Authority’s Board of Directors approved this investment by resolution dated March 18, 2006. This security is not exposed to credit risk, custodial credit risk, concentration of credit risk, or foreign currency risk. The BTI’s policy does not specifically address maturity restrictions as a means of managing exposure to fair value losses in this pool arising from increasing interest rates.

## NOTE 3 – Restricted Net Assets

The West Virginia Legislature enacted legislation creating and funding a program to enhance the availability of loans from commercial lending institutions for economic development purposes. Cash balances relating to this program are invested in the BTI’s investment pools and have been set aside, together with interest earnings thereon, to meet these objectives by serving to guarantee portions of certain loans made for economic development purposes. These restricted balances amounted to \$8,924,248 and \$8,909,559 at June 30, 2010 and 2009, respectively.

## NOTE 4 – Loans

Major classifications of the Authority’s loan portfolio are summarized as follows for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Loans for industrial development projects	\$ 138,425,676	\$ 129,655,859
Loans for industrial parks	202,321	227,285
Loan to related party for venture capital development	24,920,000	22,930,000
Allowance for loan losses	<u>(5,800,000)</u>	<u>(5,800,000)</u>
	<u>\$ 157,747,997</u>	<u>\$ 147,013,144</u>

The Authority has loaned \$24,920,000 for venture capital development to a nonprofit organization, West Virginia Enterprise Advancement Corporation (WVEAC), related through a common board of directors. By legislative authority through the West Virginia Venture Capital Act, this note is non-recourse with the right of offset against a note payable to the West Virginia Board of Treasury Investments for the same amount after June 30, 2022.

**NOTE 4 – Loans (continued)***Impaired Loans*

Impaired loans are nonperforming or underperforming loans for which the collectibility of the full amount of interest is in question, but for which management believes the principal to be substantially collectible. As such, the amount of interest recognized as revenue is less than required under original loan terms. Information concerning these loans as of and for the year ended June 30, 2010 and 2009, respectively, is as follows:

	<u>2010</u>	<u>2009</u>
Aggregate recorded balances at year end	\$ 9,178,214	\$ 8,008,682
Interest income which would have been earned during the year on nonperforming loans under their original terms	\$ 537,378	\$ 471,524
Interest income recognized on impaired loans including interest income recognized on cash basis	\$ 54,822	\$ 13,795

*Allowance for Loan Losses*

The allowance for loan losses attributable to impaired loan classifications is as follows:

	<u>2010</u>	<u>2009</u>
Balance of impaired loans	\$ 9,178,214	\$ 8,008,682
Less: Impaired loan balance for which no allowance for loan losses is allocated	-	49,710
Impaired loan balance for which an allowance for loan losses is allocated	\$ 9,178,214	\$ 7,958,972
Portion of allowance for loan losses allocated to the impaired loan balance	\$ 1,850,000	\$ 1,825,000

*Past Due and Nonaccrual Loans*

The following summarizes information on past due and nonaccrual loans that have not been classified as impaired at year end:

	<u>2010</u>	<u>2009</u>
Balance of nonaccrual loans	\$ -	\$ 5,722
Balance of loans past due 90 days or more and still accruing interest	\$ 1,706,506	\$ 2,712,348

*Allowance for Loan Losses*

An analysis of the allowance for loan losses is as follows for the years ended:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 5,800,000	\$ 5,800,000
Provision charged to operations	1,464,444	2,404,309
Loans charged off, net of recoveries	<u>(1,464,444)</u>	<u>(2,404,309)</u>
Balance, end of year	\$ 5,800,000	\$ 5,800,000

## NOTE 5 – Capital Asset and Leasing Activities

The Authority leases land, buildings, and equipment to commercial entities which are accounted for as operating leases. The leases expire over the next 1 to 19 years. Lessees of the property have the option to purchase the property at the end of the lease term at designated prices which are not considered bargain prices.

Real estate and equipment include the following at June 30:

	<i>2010</i>	<i>2009</i>
Land held for sale	\$ 1,494,322	\$ 1,499,322
Buildings and improvements	\$ 1,341,503	\$ 1,341,503
Equipment	106,294	106,294
Land held for lease	13,436,762	13,436,762
Buildings and improvements	22,021,634	21,255,929
Equipment	<u>28,810,924</u>	<u>29,110,924</u>
	65,717,117	65,251,412
Less accumulated depreciation - buildings	(11,155,180)	(10,269,897)
Less accumulated depreciation - equipment	<u>(28,126,535)</u>	<u>(27,982,238)</u>
	<u>\$ 26,435,402</u>	<u>\$ 26,999,277</u>

Capital asset activity for the years ended June 30, 2010 and 2009, was as follows:

<i>June 30, 2010</i>	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>
Land held for sale	\$ 1,499,322	\$ -	\$ 5,000	\$ 1,494,322
Land held for lease	\$ 13,436,762	\$ -	\$ -	\$ 13,436,762
Building and improvements	22,597,432	1,085,703	320,000	23,363,135
Equipment	<u>29,217,220</u>	<u>0.00</u>	<u>300,000</u>	<u>28,917,220</u>
	65,251,414	1,085,703	620,000	65,717,117
Less accumulated depreciation				
Building	(10,269,896)	(885,284)	-	(11,155,180)
Equipment	<u>(27,982,241)</u>	<u>(144,294)</u>	<u>-</u>	<u>(28,126,535)</u>
	\$ 26,999,277	\$ 56,125	\$ 620,000	\$ 26,435,402

<i>June 30, 2009</i>	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>
Land held for sale	\$ 2,354,322	\$ -	\$ 855,000	\$ 1,499,322
Land held for lease	\$ 8,893,062	\$5,000,000	\$ 456,300	\$ 13,436,762
Building and improvements	22,327,432	420,000	150,000	22,597,432
Equipment	<u>27,876,910</u>	<u>1,590,310</u>	<u>250,000</u>	<u>29,217,220</u>
	59,097,404	7,010,310	856,300	65,251,414
Less accumulated depreciation				
Building	(9,394,640)	(875,256)	-	(10,269,896)
Equipment	<u>(27,839,075)</u>	<u>(143,166)</u>	<u>-</u>	<u>(27,982,241)</u>
	\$ 21,863,689	\$5,991,888	\$ 856,300	\$ 26,999,277

**NOTE 5 – Capital Asset and Leasing Activities**

Under terms of the direct financing leases, either the lessor or lessee may elect to adjust the basic rent as of each successive fifth anniversary date following the lease commencement date by an amount necessary to fully amortize the initial purchase price based on the prevailing interest rate on such anniversary date. Future minimum lease payments are based on lease payments in effect at year end. The Authority's net investment in direct financing leases consisted of:

	<u>2010</u>	<u>2009</u>
Total minimum lease payments receivable	\$ 57,498,363	\$ 61,467,074
Less unearned interest	<u>(15,543,689)</u>	<u>(17,262,395)</u>
	<u>\$ 41,954,674</u>	<u>\$ 44,204,679</u>

At June 30, 2010, future minimum lease payments receivable under direct financing leases and non-cancellable operating leases in excess of one year are as follows:

<u>June 30</u>	<u>Operating Leases</u>	<u>Direct Financing Leases</u>	<u>Total</u>
2011	\$ 1,667,546	\$ 3,968,712	\$ 5,636,258
2012	1,619,146	4,382,804	6,001,950
2013	1,619,146	4,420,449	6,039,595
2014	1,619,146	4,420,449	6,039,595
2015	1,649,146	3,579,445	5,228,591
Thereafter	<u>7,353,928</u>	<u>36,726,504</u>	<u>44,080,432</u>
	<u>\$ 15,528,058</u>	<u>\$ 57,498,363</u>	<u>\$ 73,026,421</u>

Lease revenue includes interest from direct financing leases of \$1,777,832 and \$1,358,348 for the years ended June 30, 2010 and 2009, respectively.

**NOTE 6 – Loans Payable**

	<u>2010</u>	<u>2009</u>
Revolving loan agreement with the West Virginia Board of Treasury Investments to borrow up to \$175,000,000 to be reloaned for economic development purposes, interest equal to the twelve-month average of the Board's yield on its cash liquidity pool, which was 4.17% for fiscal year 2009, 3.17% for fiscal year 2010, and adjustable annually thereafter on July 1 of each consecutive year, monthly payments of principal and interest payable in an amount sufficient to repay the outstanding principal balance over 10 years, secured by a security interest in the investments derived from the loan.	\$ 124,234,934	\$ 120,900,020
Note payable to West Virginia Board of Treasury Investments, non-recourse with right of offset against a note receivable to WVEAC, amount not to exceed \$25 million, interest at 3% per annum, principal due in annual installments through June 30, 2022, unsecured. Note repayments are dependent upon the proceeds received from the investments in venture capital funds.	24,920,000	22,930,000



## NOTE 6 – Loans Payable (continued)

	<i>2010</i>	<i>2009</i>
Note payable to unrelated party, assigned to West Virginia Workers Compensation Fund of the West Virginia Offices of the Insurance Commissioner in December 2006, payments contingent on sale of real estate, interest accrues at 9.0%, note matures June 2017, secured by business park property.	\$ 765,526	\$ 765,526
Note payable to West Virginia Infrastructure and Jobs Development Council due in monthly installments of principal of \$10,417, final payment due October 1, 2023, note is noninterest bearing and secured by real estate.	1,677,057	1,802,061
Note payable to West Virginia Infrastructure and Jobs Development Council due in monthly installments of \$20,703.05, final payment due March 1, 2024, interest rate at 3% and secured by real estate.	2,795,838	2,957,750
Note payable to West Virginia Infrastructure and Jobs Development Council due in monthly installments of \$16,641.16, final payment due June 1, 2029, interest rate at 3% and secured by real estate.	2,888,790	3,000,000
Note payable to the West Virginia Water Development Authority on behalf of the West Virginia Infrastructure and Jobs Development Council, due in monthly installments of principal and interest, final payment due June 22, 2021, note is noninterest bearing for first five years. Beginning June 22, 2011, payments will begin and the rate will be 3% per annum secured by real estate.	523,700	523,700
Loan payable on demand to the West Virginia Division of Environmental Protection, no interest and unsecured. Paid in full in 2010.	-	37,996
	157,805,845	152,917,053
Less current maturities	(11,513,963)	(10,745,467)
Long term portion	\$ 146,291,882	\$ 142,171,586

<i>June 30</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2011	\$ 11,513,963	\$ 3,603,145	\$ 15,117,108
2012	11,858,884	3,271,807	15,130,691
2013	14,606,483	2,934,549	17,541,032
2014	14,643,131	2,600,379	17,243,510
2015	14,708,606	2,266,536	16,975,142
2016-2020	76,139,339	6,674,855	82,814,194
2021-2025	13,583,651	769,599	14,353,250
2026-2030	751,788	46,987	798,775
	\$ 157,805,845	\$ 22,167,857	\$ 179,973,702

**NOTE 6 – Loans Payable (continued)**

Changes in loans payable for the years ended June 30, 2010 and 2009, were as follows:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>	<i>Amounts Due Within One Year</i>
June 30, 2010	\$152,917,053	\$19,041,094	\$(14,152,302)	\$157,805,845	\$11,513,963
June 30, 2009	\$131,176,657	\$47,001,866	\$(25,261,470)	\$152,917,053	\$10,745,467

**NOTE 7 – Amounts Due to Other State Agencies**

Amounts Due to Other State of West Virginia Agencies as of June 30, consisted of the following:

	<u>2010</u>	<u>2009</u>
Balances included in loans payable:		
WV Infrastructure & Jobs Development Council	\$ 7,885,385	\$ 8,283,511
Workers' Compensation Fund of the West Virginia Offices of the Insurance Commissioner	765,526	765,526
WV Board of Treasury Investment	149,154,934	143,830,020
WV Division of Environmental Protection	-	37,997
Balances included in amount due to the State Agencies:		
Development Office	7,000	7,000
Governor's Office	<u>43,351</u>	<u>43,351</u>
	<u>\$ 157,856,196</u>	<u>\$ 152,967,405</u>

The amount due to the Workers' Compensation Fund of the West Virginia Offices of the Insurance Commissioner is a subordinated note assigned from Weirton Steel to Workers' Compensation. West Virginia Board of Treasury Investment consists of a revolving promissory note in the amount of \$175 million and a non-revolving, non-recourse promissory note in the amount of \$25 million.

**NOTE 8 – Commitments and Contingencies**

Commitments to extend credit are agreements between the Authority and borrowers which generally require the borrowers to meet certain conditions regarding the extension of credit and which expire on specified dates. In making these commitments, the Authority evaluates each borrower's creditworthiness. Upon extension of credit, the Authority requires the loan to be collateralized by equipment and/or real estate. At June 30, 2010, the Authority had committed to make loans of \$35,913,914. In order to fund these loans, the Authority will borrow \$24,715,855 from the BTI. The remaining \$11,198,059 will be provided from the Authority's available funds.

The Authority guarantees repayment of portions of certain loans made for economic development purposes. These guarantees represent conditional commitments by the Authority to guarantee the performance of a borrower to a third party lender. As of June 30, 2010, loans of \$613,270 were guaranteed under this program. During the year ended June 30, 2010, the Authority did not pay any claims under the loan guarantee program.

The Authority was the conduit issuer of West Virginia Economic Development Authority commercial development revenue bonds (Stonewall Jackson Lake State Park project) series 2000A and 2000B. These bonds have continued to be in payment default since April 1, 2006. Although these bonds do

## **NOTE 8 – Commitments and Contingencies (continued)**

not represent a liability for the Authority or the State of West Virginia, the Authority did make a direct loan to the West Virginia Division of Natural Resources for capital improvements made at Stonewall Jackson Lake State Park in the amount of \$5.2 million. The default on the series 2000A and 2000B bonds does inject uncertainty on the future repayment of the Authority's direct loan. It is too early to determine if impairment of the Authority's asset will occur, but the Authority has increased its reserves to recognize current events.

## **NOTE 9 – Risk Management**

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and life coverage; and natural disasters. The State of West Virginia has established the Board of Risk and Insurance Management (BRIM) and the Public Employees Insurance Agency (PEIA) as risk pools to account for and finance uninsured risks of losses for State agencies, institutions of higher education, and component units.

BRIM is a public entity risk pool that provides coverage for general, property, medical malpractice, and automobile liability. PEIA is also a public entity risk pool that provides coverage for employee and dependent health, life and prescription drug insurance. The Authority retains the risk of loss on certain tort and contractor claims in excess of the amount insured or covered by BRIM's insurance carrier.

Through its participation in the PEIA, the Authority has obtained health coverage for its employees. In exchange for payment of premiums to PEIA, the Authority has transferred its risks related to health coverage of its employees.

## **NOTE 10 – Retirement Plan**

### *Plan Description*

The Authority contributes to the West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board. Chapter 5, Article 10 of the West Virginia State Code assigns the authority to establish and amend benefits provisions to the PERS Board of Trustees. Employees who retire at or after age 60 with five or more years of contributory service or who retire at or after age 55 and have completed 25 years of credited service are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's final average salary multiplied by the number of years of the employee's credited service at the time of retirement. PERS also provides deferred retirement, early retirement, death and disability benefits to plan members and beneficiaries. The West Virginia Consolidated Public Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the West Virginia Consolidated Public Retirement Board, 1900 Kanawha Boulevard East, Building Five, Charleston, West Virginia 25305 or by calling (304) 558-3570.

### *Funding Policy*

The PERS funding policy has been established by action of the State Legislature. State statute requires that plan participants contribute 4.5% of compensation. The current combined contribution rate is 15% of annual covered payroll, including the Authority's contribution of 12% which is established by PERS. The Authority's contributions to PERS for the years ended June 30, 2010, 2009, and 2008 were \$58,447, \$56,028, and \$54,473 respectively.

**NOTE 11 – Conduit Debt Obligations**

The Authority has issued Industrial Development Revenue Bonds and Residential Care Facility First Mortgage Revenue Bonds to provide financial assistance to private sector and governmental entities for the acquisition and construction of commercial and residential care facilities deemed to be in the public interest. The Authority has also issued Revenue Bonds to provide financial assistance to state and local governmental entities for the acquisition and construction of facilities deemed to be in the public interest. All of the bonds are secured by the property financed and revenues generated with the bond proceeds and are payable solely from payments received on the underlying obligations. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private sector or governmental entity served by the bond issuance. The Authority, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities of the Authority in the accompanying financial statements.

As of June 30, 2010 and 2009, there were 50 and 49 revenue bonds outstanding with an approximate aggregate principal amount payable of \$1,736,000,000 and \$1,087,000,000, respectively.

**NOTE 12 – Subsequent Events**

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through October 6, 2010, the date the financial statements were issued. The following is a subsequent event.

The West Virginia State Legislature authorized the issuance of bonds with the Authority as the conduit agency for the funds. The Lottery Revenue Bonds 2010 Series A were issued for \$155,620,000, dated August 1, 2010 between the Authority and The Bank of New York Mellon, as Trustee. The Series A Bonds shall be secured by and payable from certain net profits of the West Virginia Lottery. Interest is payable on each June 15 and December 15, commencing December 15, 2010. The Series A bonds are subject to optional and mandatory redemption prior to maturity in the manner set forth herein. Several universities are to benefit from these funds including West Virginia University, West Virginia State University, Marshall University, Fairmont State University, Concord University, West Virginia University Institute of Technology, Shepherd University, Bluefield State College, West Virginia School of Osteopathic Medicine West Liberty University, and Glenville State College. Several state parks are to benefit from these funds including Canaan Valley Resort, Blackwater Falls State Park, Cacapon State Park, Hawks Nest State Park, Twin Falls State Park and Bluestone State Park. Further, the Capitol Complex will benefit from these funds with some needed renovation.

# West Virginia Economic Development Authority

## Board of Directors

### *Kelley Goes*

Chairman

Building 6, Room 525  
Charleston, WV 25305-0311  
(304) 558-2234  
Fax: (304) 558-1189

### *Allen R. Butcher*

800 Garfield Avenue  
Parkersburg, WV 26101  
(304) 424-2202  
Fax: (304) 424-2782

### *Timothy R. Duke*

P. O. Box 2547  
Huntington, WV 25726  
(304) 696-8213  
Fax: (304) 529-1479

### *Marcus W. Estlack*

1812 Garfield Avenue  
Parkersburg, WV 26101  
(304) 485-2300 ext. 101  
Fax: (304) 485-2750

### *Kim Knopf*

135 East Ridge Road  
Charleston, WV 25314  
(304) 586-2863 ext. 112  
Fax: (304) 586-4442

### *Parween Sultany Mascari*

P. O. Box 619  
Morgantown, WV 26507  
(304) 284-4164  
Fax: (304) 284-4142

### *Craig A. Griffith*

P. O. Box 11771  
Charleston, WV 25324-1771  
(304) 558-0751  
Fax: (304) 558-8999

### *Greg Skidmore*

455 Fox Den  
Sutton, WV 26601  
(304) 765-7880  
Fax: (304) 765-5074

### *Richard L. Slater, CPA*

P. O. Box 1747  
Charleston, WV 25326  
(304) 414-2605  
Fax: (304) 343-1895

# West Virginia Economic Development Authority

## Staff

*David A. Warner*, Executive Director

*Caren Wilcher*, Associate Director

*Tony Benedetto*, Loan Officer

*Joey D. Browning*, Loan Officer

*J. Steven Webb*, Loan Officer

*Beverly S. Dolin*, Administrative Aide

*Deborah J. Orcutt*, Secretary

*Jackie A. Browning*, Accountant

*Erin C. McCoy*, Accountant

*Sarah B. Hartwell*, Accounting Technician

NorthGate Business Park  
160 Association Drive  
Charleston, WV 25311-1217  
(304) 558-3650  
Fax: (304) 558-0206

[www.wveda.org](http://www.wveda.org)

## Consultants

*Spilman, Thomas & Battle, PLLC*

Legal Counsel  
P. O. Box 273  
Charleston, WV 25321-0273

*Bowles Rice McDavid Graff & Love, PLLC*

Legal Counsel  
P. O. Box 1386  
Charleston, WV 25325-1386





West Virginia Economic Development Authority  
NorthGate Business Park  
160 Association Drive  
Charleston, WV 25311-1217

