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West Virginia Infrastructure and Jobs Development Council

Financial Statements With Supplementary Information

Year Ended June 30, 2007

WITH INDEPENDENT AUDITORS' REPORT

West Virginia Infrastructure and Jobs Development Council

Financial Statements
Year Ended June 30, 2007

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Gibbons
& Kawash
Certified Public Accountants
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INDEPENDENT AUDITORS' REPORT

To the Members of the
West Virginia Infrastructure and Jobs Development Council
Charleston, West Virginia

We have audited the accompanying financial statements of the West Virginia Infrastructure and Jobs Development Council (the Council), a component unit of the State of West Virginia, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Council'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 the 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 Infrastructure and Jobs Development Council as of June 30, 2007, and the results of its operations 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 October 5, 2007, on our consideration of the Council'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 9 and the Budgetary Comparison Schedule – Special Revenue Fund and the accompanying note on pages 33 and 34 are not a required part of the basic financial statements, but are 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.

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Our audit was conducted for the purpose of forming an opinion on the financial statements of the Council taken as a whole. The accompanying schedules on pages 35 to 41 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.

Gibbons & Kawash

October 5, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Our discussion and analysis of the West Virginia Infrastructure and Jobs Development Council's (the "Council") financial performance provides an overview of the Council's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the Council's financial statements, which begin on page 10.

USING THIS REPORT

This report consists of a series of fund level and government-wide basic financial statements. The Governmental Funds Balance Sheet/Statement of Net Assets and the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities report the Council's net assets and changes in them. The Council's net assets – the difference between assets and liabilities – is one way to measure the Council's financial health or financial position. Over time, increases or decreases in the Council's net assets are one indicator of whether its financial health is improving or deteriorating.

Also included, as required supplementary information, is the Budgetary Comparison Schedule for the Special Revenue Fund. Because there is a legally adopted budget at the State of West Virginia (the "State") level for the excess lottery revenue received by the Council during the fiscal year, the Budgetary Comparison Schedule is presented for those revenues. The schedule presents both the original and the final appropriated budgets for the reporting period as well as actual inflows and ending balance.

FINANCIAL HIGHLIGHTS

Special Revenue Fund:

- Total assets increased $71.4 million, from $571.4 million to $642.8 million, or about 12.5%.
- Total liabilities increased from $90 thousand in the prior year to $117 thousand in the current year or about 30%.
- Excess of revenues, transfers in and other financing sources over expenditures, transfers out and other financing uses increased $28.9 million or about 68%. Even though the Council did not receive $14 million in supplementary appropriations in the current year as was the case last year, this amount increased for several reasons, primarily because $38.2 million of proceeds from a current year revenue bond issue was transferred to this fund from the Debt Service Fund.

Debt Service Fund:

- Total assets increased $98 thousand, from $250 thousand to $348 thousand, or about 39%.
- Excess (deficiency) of revenues, transfers in and other financing sources over expenditures, transfers out and other financing uses decreased $55 thousand, from $153 thousand to $98 thousand, or about 36%.

FINANCIAL HIGHLIGHTS (Continued)

Debt Service Fund (Continued):

- Included as other financing sources during the current year were $94.2 million and $38.1 million in proceeds from the issue of one series of general obligation refunding bonds ("refunding bonds") and one series of revenue bonds, respectively, as well as the related $6.5 million bond premium for both series. Offsetting those other financing sources were debt service expenditures of $55.4 million to currently refund $53.2 million of two series of general obligation bonds, pay early call premiums of $1 million and pay bond issuance costs of $1.2 million. Additionally, $45.4 million of proceeds from the refunding bonds was paid to a refunded bonds escrow agent for the portion of general obligation bonds that was advance refunded; and $38.2 million of proceeds from the revenue bonds and related premium was transferred to the Special Revenue Fund for financing infrastructure projects and to fund the debt service reserve fund. The current year refunding bonds are discussed in more detail in Note 4 to the financial statements.

Government Wide:

- Total assets increased $71.6 million or about 12.5%.
- Total liabilities increased $31 million or about 8%.
- Net assets increased $40.6 million or about 21.5%. Expenses decreased by $2.1 million and total revenues decreased $11.1 million.
- An agency fund is used to report funds held and disbursed by the Council on behalf of the State for economic development projects (see Statement on page 12).

FINANCIAL ANALYSIS OF THE COUNCIL AS A WHOLE

Our analysis below focuses on the Net Assets (Table 1) and Changes in Net Assets (Table 2) of the Council:

Table 1
Net Assets

	2007	2006
Assets		
Cash and cash equivalents	$ 159,154,276	$ 79,520,801
Investments	132,284,082	170,993,534
Loans receivable	350,288,709	319,990,700
Other	1,705,368	1,296,979
Total assets	643,432,435	571,802,014
Liabilities		
Bonds payable	410,829,101	380,805,193
Other	3,379,376	2,379,401
Total liabilities	414,208,477	383,184,594
Net assets		
Restricted	211,359,954	180,725,964
Unrestricted	17,864,004	7,891,456
	$ 229,223,958	$ 188,617,420

Table 2
Changes in Net Assets

	2007	2006
Revenues		
Program revenues		
Charges for services	$ 2,113,842	$ 2,101,876
Total program revenues	2,113,842	2,101,876
General revenues		
Intergovernmental	64,000,000	78,000,000
Investment earnings	12,249,444	9,340,098
Total general revenues	76,249,444	87,340,098
Total revenues	78,363,286	89,441,974
Expenses		
General and administrative	390,680	525,615
Interest on long-term debt	20,636,066	19,822,330
Amortization	69,519	17,731
Infrastructure and economic development	16,660,483	19,497,918
Total expenses	37,756,748	39,863,594
Change in net assets	40,606,538	49,578,380
Beginning net assets	188,617,420	139,039,040
Ending net assets	$ 229,223,958	$ 188,617,420

"Cash equivalents," which include short-term, highly liquid investments with original maturities of 90 days or less, increased $79.8 million, from $79.4 million last year to $159.2 million at the end of the current year. Additions to cash equivalents were the result of intergovernmental revenues from mineral severance tax and excess lottery appropriations, interest on loans, principal repayments of loans, investment earnings, and proceeds from a revenue bond issue.

Offsetting these increases were expenditures for grants and loans, contributions of the State matches for the federally sponsored Drinking Water Treatment and Clean Water State Revolving Funds, principal and interest payments on outstanding bonds payable, and general and administrative expenses.

"Investments" on the Governmental Funds Balance Sheet/Statement of Net Assets decreased $38.7 million as the result of maturities of investments of $8.3 million and sales of investments to purchase cash equivalents of $9.5 million, disbursements of loans and grants of $24.1 million and payments of $2.7 million required State matches for the federally sponsored Clean Water State Revolving Fund. Offsetting those decreases was the reinvestment of current year investment earnings of $5.9 million.

"Loans receivable" on the Governmental Funds Balance Sheet/Statement of Net Assets had a net increase of $30.3 million. This increase was the combined effect of disbursements of new and prior year loan funds to projects of $41.1 million, less repayments of principal on loans of $10.4 million and forgivable loans of $432 thousand being converted to grants during the current year.

"Total liabilities" increased $31 million. Of that total increase, about $30 million was related to bonds payable. One series of refunding bonds and one series of revenue bonds issued during the current year increased bonds payable $94.9 million and $38.2 million, respectively, net of unamortized amounts. Additionally, there was a $4.86 million increase in general obligation bonds for interest accreted on those bonds during the current year. Current year principal payments on outstanding debt of $66.8 million, including $53.2 million of bonds that were currently refunded, decreased bonds payable. Additionally, two series of general obligation bonds were partially advance refunded, resulting in a $41.9 million decrease in bonds payable. The net increase in bonds payable resulted in a corresponding increase in accrued interest payable.

Restrictions of **"Net assets"** are the result of constraints placed on net asset use which have been imposed externally through debt covenants and by law through enabling legislation. Restricted net assets increased about $30.6 million during the current year. That increase can be explained primarily as follows: mineral severance tax revenue of $24 million, excess lottery appropriations of $40 million received from the State during the current year and $13 million of interest on loans and investment earnings. Offsetting the increases were disbursements of $16.7 million for grants and the State matches for the federally sponsored Drinking Water Treatment and Clean Water State Revolving Funds, $20.6 million of interest expense related to revenue and general obligation bonds and $9.4 million transferred from restricted accounts to unrestricted accounts. Transfers from restricted accounts included interest earnings on accounts funded with residual mineral severance tax revenue, earnings on accounts funded with State appropriations of excess lottery revenue and earnings on debt service reserve funds. The earnings on those restricted accounts were transferred to the unrestricted revenue account and various rebate accounts and were used, in part, to pay operating expenses of the Council. Transfers of $9.4 million from restricted accounts to unrestricted accounts also explains most of the increase in **"Unrestricted net assets."**

"Charges for services" consists of interest earnings on loans to projects and did not significantly increase during the current year. Even though loans receivable had a net increase of $30.3 million during the current year, most of the new loans to projects are noninterest bearing or bear no interest during the construction period or the accrual and payment of interest are for other reasons deferred to future periods.

"Intergovernmental" consists of $24 million mineral severance tax revenue and $40 million excess lottery revenue, both appropriated from the State. The mineral severance tax revenue was received from the State's general fund into the Debt Service Fund to pay the general obligation bonds debt service payments required in fiscal year 2007. Excess lottery revenue represents the amount in the State's lottery fund in the State Treasury appropriated by the Legislature to the Council for loans, grants and other funding assistance.

Most of the **"Investment earnings"** consists of earnings on excess lottery revenue. Investment earnings also include earnings on committed but unloaned proceeds of bond issues, earnings on repayments of principal and interest on loans to projects and earnings on mineral severance tax revenue that is invested prior to payment of debt service on general obligation bonds. Subsequent to the payment of debt service, any residual mineral severance tax revenue is also invested.

Investment earnings for the prior and current years were $9 million and $12.2 million, respectively. The increase in earnings is primarily explained by an increase in funds invested, including $40 million of excess lottery revenue received between February and April of the current year. Additionally, prior year excess lottery proceeds of $40 million and a prior year general fund appropriation of $14 million were not received until the month before the end of the prior year and two days before the end of the prior year, respectively, so excess lottery proceeds were invested for less than two months the prior year versus twelve months the current year and the general fund appropriation was invested only two days the prior year versus twelve months the current year.

Money market rates, which were 4.72% and 5.00% at the end of the prior year, remained about the same or slightly increased during the current year and were 4.89% and 5.15% at the end of the current year.

"Interest on long-term debt" increased $814 thousand. The increase is due in large part to interest on revenue bonds issued during the current year. Offsetting the increase in interest on revenue bonds was a decrease in interest on general obligation bonds due to the partial refunding of three series of bonds on November 1 of the current year at a lower rate of interest.

"Infrastructure and economic development" consists of grants paid to projects as well as the contributions for the required State matches for the federally sponsored Drinking Water Treatment and Clean Water State Revolving Funds and decreased $2.8 million during the current year. While the current year State match of $1.6 million for the Drinking Water Treatment Revolving Fund remained about the same, the State match to the Clean Water State Revolving Fund during the current year was $637 thousand less than the prior year. Additionally, there was a $2.2 million decrease in grants paid to projects during the current year.

The Council has issued commitments to loan or grant funds to qualifying applicants for a period of time contingent on numerous actions to be completed by the applicants. As of June 30, 2007, $90.6 million of Special Revenue Fund balance was designated by the Council for loan and grant commitments. Additionally, $4.4 million was designated by the Council for contribution of State matches for the Drinking Water Treatment and Clean Water State Revolving Funds.

The $348 thousand of fund balance reserved in the Debt Service Fund represents amounts reserved for debt service.

The $408.6 million of fund balance reserved in the Special Revenue Fund includes $47.2 million that has been committed but not distributed to projects with which the Council has entered into loan and grant agreements. The remaining $361.4 million consists of $350.3 million in loans receivable which are not available for appropriation, the debt service reserve fund requirement of $8 million and the balance of repayments of defined loans reserved for debt service of $3.1 million.

The analysis given in the preceding paragraphs relates to the Council's overall financial position and results of operations and also reflects the reasons for significant changes in fund balances.

BUDGETARY HIGHLIGHTS

West Virginia Code §29-22-18a ("Section 18a") created within the State's lottery fund in the State Treasury an excess lottery revenue fund from which moneys are disbursed in specific allocations to various State accounts, including the Council. If there are not sufficient revenues to fully comply with the funding requirements of Section 18a, remaining funds are distributed first to the economic development project fund; second, to the other funds from which debt service is to be paid; third, to the education improvement fund for appropriation by the Legislature to the promise scholarship fund; fourth, to the general purpose account to be expended pursuant to appropriation by the Legislature provided that, to the extent such revenues are not pledged in support of revenue bonds which are or may be issued from time to time under Section 18a; and then on a pro rata basis to the remaining State accounts, including the Council.

During the year ended June 30, 2007, $40 million of excess lottery revenue was appropriated for and received by the Council.

DEBT ADMINISTRATION

The Infrastructure General Obligation Bonds and Refunding Bonds constitute a direct and general obligation of the State, and the full faith and credit of the State is pledged to secure the payment of the principal of and interest on such bonds. The debt service on such general obligation bonds is paid from the dedication of mineral severance taxes in the State's general fund.

The West Virginia Water Development Authority (the "Authority") is authorized to issue, on behalf of the Council, infrastructure and refunding bonds, which do not constitute a debt or pledge of the faith and credit of the State, for the purpose of providing funds to enable the Council to finance the acquisition or construction of water, wastewater and infrastructure projects. The debt service on such infrastructure bonds is paid from repayments of principal of and interest on a set of loans previously made by the Authority on behalf of the Council.

DEBT ADMINISTRATION (Continued)

At year-end, $412.3 million (prior to amortization) in general obligation, revenue and refunding bonds issued for the benefit of the Council were outstanding versus $383.9 million in the prior year, an increase of 7.4% resulting from the issuance of revenue bonds and current year accreted interest on capital appreciation bonds, offset by current year scheduled principal payments and the net effect of partially refunding general obligation debt. For more information on long-term debt, please refer to Notes 4 and 5 to the financial statements.

FACTORS WHICH MAY AFFECT THE COUNCIL

Currently known facts, decisions or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets) include several factors. The major factor is that the Legislature appropriated to the Council $40 million for fiscal year 2008 from excess lottery revenue. This amount is contingent on revenue from the video lottery meeting expected projections; therefore, the Council may receive up to $40 million to provide additional loans, grants and other funding assistance.

There are several factors which are unknown that may affect the Council. These factors include changes in existing legislation and regulations, amounts collected in the excess lottery fund, market conditions that could impact investment income or affect the viability of issuing additional revenue bonds, and economic conditions that may affect the repayment of Council loans.

CONTACTING THE COUNCIL'S MANAGEMENT

This financial report is designed to provide a general overview of the Council's finances and to show the Council's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director or Secretary/Treasurer, West Virginia Water Development Authority, 180 Association Drive, Charleston, West Virginia 25311 (Phone: 304-558-3612) or the Executive Director, West Virginia Infrastructure and Jobs Development Council, 300 Summers Street, Suite 980, Charleston, West Virginia 25301 (Phone: 304-558-4607).

Governmental Funds Balance Sheet/Statement of Net Assets
June 30, 2007

	Special Revenue Fund	Debt Service Fund	Total	Adjustments (Note 10)	Statement of Net Assets
ASSETS					
Cash equivalents	$ 158,806,211	$ 348,065	$ 159,154,276	$ -	$ 159,154,276
Investments	132,284,082	-	132,284,082	-	132,284,082
Accrued interest receivable	1,460,899	25	1,460,924	220,250	1,681,174
Loans receivable	350,288,709	-	350,288,709	-	350,288,709
Miscellaneous receivable	24,194	-	24,194	-	24,194
Total assets	642,864,095	348,090	643,212,185	220,250	643,432,435
LIABILITIES					
Accounts payable	19,984	-	19,984	-	19,984
Due to other State of West Virginia agencies (Note 6)	97,534	-	97,534	-	97,534
Accrued interest payable	-	-	-	3,253,049	3,253,049
Compensated absences	-	-	-	8,809	8,809
General obligation bonds (Note 5)					
Due within one year, net of unamortized premium of $294,819, unamortized issue costs of $32,598 and losses on refunding of $251,408	-	-	-	13,025,813	13,025,813
Due after one year, net of unamortized premium of $5,405,028, unamortized issue costs of $597,632 and losses on refunding of $4,064,302	-	-	-	273,904,723	273,904,723
Revenue Bonds (Note 5)					
Due within one year, net of unamortized premium of $47,732, unamortized discount and issue costs of $57,204 and losses on refunding of $86,726	-	-	-	1,513,802	1,513,802
Due after one year, net of unamortized premium of $1,590,897, unamortized discount and issue costs of $1,646,839 and losses on refunding of $2,089,295	-	-	-	122,384,763	122,384,763
Total liabilities	117,518	-	117,518	414,090,959	414,208,477
FUND BALANCES/NET ASSETS					
Fund balances					
Reserved (Note 9)	408,628,367	348,090	408,976,457	(408,976,457)	-
Unreserved, designated (Note 9)	94,961,303	-	94,961,303	(94,961,303)	-
Unreserved, undesignated	139,156,907	-	139,156,907	(139,156,907)	-
Total fund balances	642,746,577	348,090	643,094,667	(643,094,667)	-
Total liabilities and fund balances	$ 642,864,095	$ 348,090	$ 643,212,185		
Net assets					
Restricted				211,359,954	211,359,954
Unrestricted				17,864,004	17,864,004
Total net assets				$ 229,223,958	$ 229,223,958

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

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities
Year Ended June 30, 2007

	Special Revenue Fund	Debt Service Fund	Total	Adjustments (Note 11)	Statement of Activities
Expenditures/Expenses					
Infrastructure and economic development	$ 16,660,483	$ -	$ 16,660,483	$ -	$ 16,660,483
Debt Service					
Principal	-	66,835,000	66,835,000	(66,835,000)	-
Interest	-	14,119,262	14,119,262	6,516,804	20,636,066
Call premium	-	1,064,100	1,064,100	(1,064,100)	-
Bond issuance costs	-	1,179,156	1,179,156	(1,179,156)	-
Amortization	-	-	-	69,519	69,519
General and administrative	387,409	-	387,409	3,271	390,680
Total Expenditures/Expenses	17,047,892	83,197,518	100,245,410	(62,488,662)	37,756,748
Program Revenues					
Charges for services	2,023,842	-	2,023,842	90,000	2,113,842
Total Program Revenues	2,023,842	-	2,023,842	90,000	2,113,842
Net Program Expense					35,642,906
General Revenues					
Intergovernmental (Note 6)	40,000,000	24,000,000	64,000,000	-	64,000,000
Investment earnings	11,785,618	463,826	12,249,444	-	12,249,444
Transfers	34,653,463	(34,653,463)	-	-	-
Total General Revenues and Transfers	86,439,081	(10,189,637)	76,249,444	-	76,249,444
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	71,415,031	(93,387,155)	(21,972,124)	21,972,124	-
Other Financing Sources					
Proceeds of general obligation refunding bonds	-	94,180,000	94,180,000	(94,180,000)	-
Proceeds of revenue bonds	-	38,135,000	38,135,000	(38,135,000)	-
Bond issuance premium	-	6,534,482	6,534,482	(6,534,482)	-
Total Other Financing Sources	-	138,849,482	138,849,482	(138,849,482)	-
Other Financing Uses					
Payment to refunded bonds escrow agent	-	45,364,216	45,364,216	(45,364,216)	-
Total Other Financing Uses	-	45,364,216	45,364,216	(45,364,216)	-
Excess (Deficiency) of Revenues, Transfers In and Other Financing Sources Over Expenditures, Transfers Out and Other Financing Uses	71,415,031	98,111	71,513,142	(71,513,142)	-
Change in Net Assets	-	-	-	40,606,538	40,606,538
Fund Balances/Net Assets					
Beginning of the year	571,331,546	249,979	571,581,525	(382,964,105)	188,617,420
End of the year	$ 642,746,577	$ 348,090	$ 643,094,667	$ (413,870,709)	$ 229,223,958

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

Statement of Fiduciary Net Assets – Agency Fund
June 30, 2007

	Balance June 30, 2007
ASSETS	
Cash equivalents	$ 48,913
Total assets	$ 48,913
LIABILITIES	
Due to State of West Virginia	$ 48,913
Total liabilities	$ 48,913

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

(1) Reporting Entity

The West Virginia Infrastructure and Jobs Development Council (the "Council") was created as a governmental entity of the State of West Virginia (the "State") under the provisions of Chapter 31, Article 15A, Section 3 of the Code of West Virginia, 1931, as amended, and known as the West Virginia Infrastructure and Jobs Development Act (the "Act"). The Council has statutory responsibility to review the preliminary applications for wastewater facilities, water facilities or combination projects, or infrastructure projects seeking State funding and to either make a written recommendation as to the infrastructure project financing, in terms of the kind, amount and source of funding, which the project sponsor should pursue and which the State infrastructure agency or agencies should consider an appropriate investment of public funds, or a determination that the project or infrastructure project is not eligible for funding assistance from any State infrastructure agency or the project or infrastructure project is not otherwise an appropriate or prudent investment of State funds, and make a recommendation that the project sponsor not seek funding from any State infrastructure agency.

The Council consists of eleven voting members, including the Governor or designee as chairman and executive representation from the Housing Development Fund, Department of Environmental Protection, Economic Development Authority, Water Development Authority (the "Authority"), Bureau for Public Health, Public Service Commission and four members representing the general public. The Authority serves as the administrative agency for the Council, is the fiduciary of the West Virginia Infrastructure Fund and is authorized to issue infrastructure revenue and refunding bonds on behalf of the Council.

The Council is a governmental instrumentality of the State and is reported as part of the primary government in the State's comprehensive annual financial report.

(2) Significant Accounting Policies

The Council is accounted for as a special-purpose government whose funds are governmental. The Special Revenue Fund is used to account for specific revenues that are legally restricted to expenditures for particular purposes. The Debt Service Fund is used to account for financial resources accumulated to repay long-term obligations and interest thereon. In accordance with accounting principles generally accepted in the United States of America, the fund financial data is presented using the current financial resources measurement focus and the modified accrual basis of accounting. The current financial resources focus reports all financial resources in the fund balance sheet but offsets those that are not "expendable" by a reservation of fund balance.

Expendable financial resources are resources that are available for expenditure; that is, cash and claims to cash that are expected to result in a cash receipt early enough in the following reporting period to be available to liquidate the current period's liabilities. The

(2) Significant Accounting Policies (Continued)

current financial resources measurement focus reports in the balance sheet those liabilities that will require the use of available expendable financial resources reported at the end of the reporting period and certain other liabilities designated by the Governmental Accounting Standards Board ("GASB") to be reported in the fund. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government-wide data in the Statement of Net Assets and the Statement of Activities is presented using the economic resources measurement focus and the accrual basis of accounting. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Budgetary Accounting

Except for excess lottery revenue and supplementary appropriations, the Council's funds are not subject to the Legislative budget process.

Cash Equivalents

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

Investments

All investments with readily determined fair values are stated at fair value determined from published sources.

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

(2) Significant Accounting Policies (Continued)

Compensated Absences (Continued)

an employee's post employment health care insurance premiums, which results in an expense and a liability as the benefits accrue to the employees. 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. There is no liability for accumulated sick leave at June 30, 2007.

Interfund Transactions

During the normal course of operations of the Council, certain transactions, including expenditures and transfers of resources to provide services and service debt, take place between funds. Interfund transactions are recorded as operating transfers as determined by Council management.

Fund Balance

Reservations of fund balance represent amounts that are not subject to appropriation or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

Restrictions of net assets are the result of constraints placed on net asset use which have been imposed through debt covenants and by law through enabling legislation.

(3) Deposit and Investment Risk Disclosures

The Authority, as administrative agency for the Council, adopted investment guidelines for the Council as of June 30, 2006. Those guidelines and the General Revenue Bond Resolution authorize the Council to invest all bond proceeds and other revenues 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. With the exception of deposits and investments of the General Obligation Debt Service Fund, investments are managed by the financial institution serving as trustee for the Council.

(3) Deposit and Investment Risk Disclosures (Continued)

As required by West Virginia Code, the mineral severance tax revenue appropriated annually for debt service on the general obligation bonds is deposited in the General Obligation Debt Service Fund held by the Treasurer of the State of West Virginia and is invested in accordance with the Act and in conformity with investment guidelines of the Board of Treasury Investments ("BTI"). The Debt Service Fund's cash balances are invested by the BTI in the Cash Liquidity Pool.

Interest Rate Risk – Cash Liquidity Pool

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Cash Liquidity Pool is subject to interest rate risk.

The overall weighted average maturity of the investments of the Cash Liquidity 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 Cash Liquidity Pool:

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	$ 246,821	2
U.S. Treasury bills	358,725	30
Commercial paper	1,015,926	52
Certificates of deposit	126,500	76
U.S. agency discount notes	21,655	113
Corporate notes	261,025	58
U.S. agency bonds/notes	46,994	156
Money market funds	185	1
	$ 2,077,831	48

Interest Rate Risk – All Other Investments

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

Investment Type	Fair Value	Investment Maturities (in Years) Less than 1	1 - 5	6 - 10
Guaranteed Investment Contracts	$ 132,284,082	$ 1,086,549	$ 125,439,311	$ 5,758,222
Money Markets	158,806,995	158,806,995	-	-
	$ 291,091,077	$ 159,893,544	$ 125,439,311	$ 5,758,222

(3) Deposit and Investment Risk Disclosures (Continued)

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

Investments matched to obligations of the Council would include investments of reserve funds for each of the Authority's outstanding revenue and refunding bond issues. The General Revenue Bond Resolution requires that, while the bonds are outstanding, there be on deposit in the reserve funds an amount equal to the maximum amount of principal installments and interest coming due during the current or any succeeding year. The Council 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 – Cash Liquidity Pool

Concentration of credit risk is the risk of loss attributed to the magnitude of the Cash Liquidity Pool's investment in a single corporate issuer. The Cash Liquidity Pool is not exposed to concentration of credit risk. The BTI investment policy prohibits the Cash Liquidity Pool from investing more than 5% of its assets in any one corporate name or one corporate issue.

Concentration of Credit Risk – All Other Investments

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

Type	Issuer	Percentage of Investments
Certificates of Deposit -	Citizens Bank of Pennsylvania	
Guaranteed Investment Contracts		43%
Money Markets	Federated Prime Obligations	39%
	Federated Government Obligations Fund	15%

The Authority's investment guidelines for the Council 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:

(3) Deposit and Investment Risk Disclosures (Continued)

	Permitted Investments	Maximum % of Portfolio
(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 – Cash Liquidity Pool

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither the BTI nor the Cash Liquidity Pool has been rated for credit risk by any organization. The Cash Liquidity Pool is subject to credit risk.

The BTI limits the exposure to credit risk in the Cash Liquidity 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. The following table provides information on the credit ratings of the Cash Liquidity Pool's investments (in thousands):

(3) Deposit and Investment Risk Disclosures (Continued)

Security Type	Credit Rating Moody's	Credit Rating S&P	Carrying Value	Percent of Pool Assets
Investments:				
Commercial paper	P1	A-1	$ 1,015,926	48.89%
Corporate bonds and notes	Aaa	AAA	98,999	4.76
	Aa3	AA	20,001	0.96
	Aa3	A	23,002	1.11
	Aa2	AA	15,000	0.72
	Aa2	A	27,000	1.30
	Aa1	AA	77,023	3.71
Total corporate bonds and notes			261,025	12.56
U.S. agency bonds	Aaa	AAA	46,994	2.26
U.S. Treasury bills	Aaa	AAA	358,725	17.27
Negotiable certificates of deposit	P1	A-1	76,500	3.68
U.S. agency discount notes	P1	A-1	21,655	1.04
Money market funds	Aaa	AAA	185	0.01
Repurchase agreements (underlying securities):				
U.S. agency notes	Aaa	AAA	246,821	11.88
Total investments			2,027,831	97.59
Deposits:				
Nonnegotiable certificates of deposit	NR*	NR*	50,000	2.41
			$ 2,077,831	100.00%

* *NR = Not Rated. See "Deposits" note at the conclusion of this footnote.*

Credit Risk – All Other Investments

The following table provides information on the credit ratings of the Council's investments:

(3) Deposit and Investment Risk Disclosures (Continued)

Security Type	Moody's	Standard & Poor's	Fair Value
Bond Proceeds:			
Guaranteed Investment Contracts	Aaa	AAA	$ 5,758,222
Guaranteed Investment Contracts	Aa2	AA-	452,875
Money Markets	Aaa	AAAm	19,401,335
Total Bond Proceeds			25,612,432
Other Revenues:			
Guaranteed Investment Contracts	Aa3	AA	1,086,549
Guaranteed Investment Contracts	Aa2	AA-	124,986,436
Money Markets	Aaa	AAAm	139,405,660
Cash Liquidity Pool	See Above	See Above	347,281
Total Other Revenues			265,825,926
Total Bond Proceeds and Other Revenues			**$ 291,438,358**

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 for the Council 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 for the Council: 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.

(3) Deposit and Investment Risk Disclosures (Continued)

Custodial Credit Risk – Cash Liquidity Pool

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. The Cash Liquidity Pool is not exposed to custodial credit risk. 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 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.

Custodial Credit Risk – All Other Investments

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

The Authority's investment guidelines for the Council put certain restrictions on repurchase agreements, including the following: the Council 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 Council or the trustee; and, the financial institution must guarantee 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 Council held no securities that were subject to custodial credit risk.

Foreign Currency Risk – All Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. There are no securities that are subject to foreign currency risk.

A reconciliation of investments as disclosed in this Note to the amounts reported on the Governmental Funds Balance Sheet/Statement of Net Assets is as follows:

(3) Deposit and Investment Risk Disclosures (Continued)

As disclosed in this Note:		
Total investments	$	291,438,358
Less: cash equivalents		(159,154,276)
Carrying amount of investments	$	132,284,082
As reported on the Governmental Funds Balance Sheet/Statement of Net Assets:		
Investments	$	132,284,082

(4) Current and Advance Refundings

On November 1, 2006, the State issued Infrastructure General Obligation Refunding Bonds, Series 2006, for $94,180,000 with interest rates ranging from 4.00% to 5.00% to partially refund $27,305,000, $36,710,000 and $31,135,000 of the State's outstanding Series 1996A, 1996D and 1998A general obligation bonds, respectively, with interest rates ranging from 4.80% to 6.50%. The proceeds of $100,076,395 (including original issue premium of $5,896,395) and $275,000 of the State's funds were used to pay $718,079 in underwriting fees, insurance and other issuance costs relating to the refunding bond issue; provide for the November 1, 2006, redemption of $27,305,000 and $25,900,000 of the Series 1996A and 1996D general obligation bonds, respectively, being currently refunded; pay the early redemption premium of $546,100 and $518,000 of the Series 1996A and 1996D general obligation bonds, respectively, being currently refunded; and to purchase United States government obligations. Those securities were deposited in an irrevocable escrow fund with an escrow agent to provide for (i) the interest due on the Series 1996D bonds being advance refunded through and including November 1, 2016, and to redeem the principal amount of the Series 1996D bonds on November 1, 2016, at a redemption price of 102% of the principal amount thereof, and (ii) the interest due on the Series 1998A bonds being advance refunded through and including November 1, 2008, and to redeem the principal amount of the Series 1998A bonds on November 1, 2008, at a redemption price of 102% of the principal amount thereof. As a result of these advance refundings, $10,810,000 of the Series 1996D bonds and $31,135,000 of the Series 1998A bonds are considered to be defeased; and the liability for those bonds has been removed from the financial statements.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $2,302,669 and $1,116,547 of the Series 1996D and 1998A bonds, respectively. Adjusted for 2007 combined amortization of $126,380, those differences are being charged to expense through fiscal years 2027 and 2022 for the differences associated with the refunding of the Series 1996D bonds and 1998A bonds, respectively, using the straight-line method. The State completed the refunding to reduce

(4) Current and Advance Refundings (Continued)

its total debt service payments over the next 20 years by $9,714,744 and to obtain an economic gain (difference between the present values of the old and new debt service requirements, discounted at the effective interest rate of the new debt and adjusted for additional cash paid) of $6,204,472.

(5) Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2007:

	Balance July 1, 2006	Debt Additions/ Accretions	Debt Reductions	Balance June 30, 2007
General Obligation Bonds*				
1996 Series A, B, C, D and E	$ 99,530,000	$ -	$ 66,470,000	$ 33,060,000
1998 Series A, B and C	77,880,000	-	33,495,000	44,385,000
1999 Series B and C	21,300,000	-	950,000	20,350,000
1999 Series A Capital Appreciation	96,192,867	4,858,762	6,850,000	94,201,629
2006 Series Refunding	-	94,180,000	-	94,180,000
	294,902,867	99,038,762	107,765,000	286,176,629
Revenue and Refunding Bonds				
2003 Series A	34,220,000	-	965,000	33,255,000
2006 Series A	44,650,000	-	50,000	44,600,000
2006 Series B	10,150,000	-	-	10,150,000
2007 Series A	-	38,135,000	-	38,135,000
	89,020,000	38,135,000	1,015,000	126,140,000
Compensated Absences	5,538	3,271	-	8,809
	$ 383,928,405	$ 137,177,033	$ 108,780,000	$ 412,325,438

*A 1994 Constitutional Amendment authorized the issuance of $300,000,000 in Infrastructure General Obligation Bonds. The Infrastructure General Obligation Bonds were issued in four separate issues totalling $299,993,910: Series 1996A - $35,300,000; Series 1996B - $14,700,000; Series 1996C - $10,000,000; Series 1996D - $50,000,000; Series 1996E - $7,000,000; Series 1998A - $68,000,000; Series 1998B - $10,000,000; Series 1998C - $14,000,000; Series 1999A - $69,693,910; Series 1999B - $7,300,000; and Series 1999C - $14,000,000. In November 2006, the Infrastructure General Obligation Refunding Bonds, Series 2006, partially refunded the Series 1996A, Series 1996D and Series 1998A Bonds.

(5) Long-Term Debt (Continued)

Future maturities of principal and interest of general obligation bonds, with interest rates ranging from 4.00% to 7.25% and maturing through 2027, are as follows:

	Principal	Interest	Total
2008	$ 6,065,000	$ 10,018,314	$ 16,083,314
2009	6,330,000	9,651,736	15,981,736
2010	6,640,000	9,281,864	15,921,864
2011	7,075,000	8,895,647	15,970,647
2012	7,555,000	8,486,094	16,041,094
	33,665,000	46,333,655	79,998,655
2013 - 2017	43,905,000	35,639,348	79,544,348
2018 - 2022	53,280,000	21,802,725	75,082,725
2023 - 2027	61,125,000	7,753,750	68,878,750
	158,310,000	65,195,823	223,505,823
Total	191,975,000	$ 111,529,478	$ 303,504,478

Capital Appreciation Bonds

	Principal, net of amounts to be accreted in future years	Amounts to be accreted in future years	Total
2008	$ 6,841,614	$ 108,386	$ 6,950,000
2009	6,617,468	432,532	7,050,000
2010	6,341,205	758,795	7,100,000
2011	5,969,793	1,080,207	7,050,000
2012	5,595,246	1,379,754	6,975,000
	31,365,326	3,759,674	35,125,000
2013 - 2017	24,335,086	11,239,914	35,575,000
2018 - 2022	20,440,030	19,584,970	40,025,000
2023 - 2027	18,061,187	28,138,813	46,200,000
	62,836,303	58,963,697	121,800,000
Total capital appreciation bonds	94,201,629	$ 62,723,371	$ 156,925,000
Total general obligation bonds	$ 286,176,629		
Add: unamortized premium	5,699,847		
Less: unamortized issue costs	(630,230)		
unamortized loss on refunding	(4,315,710)		
Total, presented net	286,930,536		
Less: amount due within one year	(13,025,813)		
Amount due after one year	$ 273,904,723		

(5) Long-Term Debt (Continued)

Future maturities of principal and interest of revenue and refunding bonds, with interest rates ranging from 2.50% to 5.50% and maturing through 2046, are as follows:

	Principal	Interest	Total
2008	$ 1,610,000	$ 5,871,045	$ 7,481,045
2009	1,655,000	5,709,319	7,364,319
2010	2,310,000	5,643,554	7,953,554
2011	2,390,000	5,562,576	7,952,576
2012	2,465,000	5,475,848	7,940,848
	10,430,000	28,262,342	38,692,342
2013 - 2017	13,510,000	25,833,865	39,343,865
2018 - 2022	15,460,000	22,741,655	38,201,655
2023 - 2027	18,105,000	18,851,100	36,956,100
2028 - 2032	20,830,000	14,130,675	34,960,675
2033 - 2037	24,945,000	8,642,081	33,587,081
2038 - 2042	16,980,000	2,977,206	19,957,206
2043 - 2046	5,880,000	475,238	6,355,238
	115,710,000	93,651,820	209,361,820
Total revenue and refunding bonds	$ 126,140,000	$ 121,914,162	$ 248,054,162
Add: unamortized premium	1,638,629		
Less: unamortized issue costs	(1,580,918)		
unamortized discount	(123,125)		
unamortized loss on refunding	(2,176,021)		
Total, presented net	123,898,565		
Less: amount due within one year	(1,513,802)		
Amount due after one year	$ 122,384,763		

The source of repayment for the general obligation and refunding bonds is the annual receipt of $24 million of mineral severance tax revenue deposited into the Debt Service Fund from the State's general fund.

The primary source of repayment for the revenue and refunding bonds is the receipt of payments of principal and interest on a set of loans, known as defined loans, previously made to projects from general obligation and revenue bond proceeds. The amount needed from the Special Revenue Fund to the Debt Service Fund for revenue bond debt service during the fiscal year ended June 30, 2007, was $4,498,755.

The bonds are subject to the arbitrage rebate provisions of the Internal Revenue Code which requires that 90% of excess investment earnings on the bond proceeds be paid to the United States Internal Revenue Service every five years in order for the bonds to maintain their tax-exempt status. As of June 30, 2007, the Council had no liability for excess investment earnings on bond proceeds.

(6) Transactions with State of West Virginia Agencies

The Council reimburses the Authority for all payroll costs of Authority employees utilized by the Council as well as general and administrative expenses incurred by the Council and paid by the Authority. The Authority also provides office space and fiduciary services to the Council. Such costs and expenses reimbursed to the Authority for the year ended June 30, 2007, totalled $343,569. As of June 30, 2007, the Council was indebted to the Authority for $97,534 in connection with these costs and expenses.

A reconciliation of the amounts reimbursed to the Authority for general and administrative expenses incurred by the Council is as follows:

Expenses reimbursed to the Authority	$ 343,569
Less: reimbursements for prior year expenses	(82,523)
Add: current year expenses incurred but not reimbursed to the Authority	97,534
Current year expenses reimbursed and due to the Authority	$ 358,580
General and administrative expenses paid directly by Council	17,000
Reimbursements from third parties	(439)
Accounts payable, June 30, 2006	(7,716)
Accounts payable, June 30, 2007	19,984
Total general and administrative expenses incurred by Council	$ 387,409

The Council received $24 million of mineral severance tax revenue from the State's general fund into the Debt Service Fund to accommodate the general obligation bonds debt service payments required in fiscal year 2007. Funds remaining after the payment of general obligation bonds debt service were transferred to the Special Revenue Fund to provide additional lending and granting capacity, which is consistent with the Council's purpose.

West Virginia Code §29-22-18a ("Section 18a") created within the State's lottery fund in the State Treasury an excess lottery revenue fund from which moneys are disbursed in specific allocations to various State accounts, including the Council. If there are not sufficient revenues to fully comply with the funding requirements of Section 18a, remaining funds are distributed first to the economic development project fund; second, to the other funds from which debt service is to be paid; third, to the education improvement fund for appropriation by the Legislature to the promise scholarship fund; fourth, to the general purpose account to be expended pursuant to appropriation by the Legislature provided that, to the extent such revenues are not pledged in support of revenue bonds which are or may be issued from time to time under Section 18a; and then on a pro rata basis to the remaining State accounts, including the Council. During the year ended June 30, 2007, $40 million was appropriated for and received by the Council.

(6) Transactions with State of West Virginia Agencies (Continued)

During the year ended June 30, 2007, the Council contributed $1,657,100 to the Bureau for Public Health for the required State match for the federally sponsored Drinking Water Treatment Revolving Fund to secure federal dollars and continue that program. Also during the year ended June 30, 2007, the Council contributed $2,730,182 to the Department of Environmental Protection as required State match for the federally sponsored Clean Water State Revolving Fund for the purpose of securing federal dollars and continuing that program.

(7) Schedule of General and Administrative Expenses

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

Salaries and benefits	$	176,285
Legal		109,750
Consulting and professional		25,035
Rentals		20,585
Trustee		17,000
Travel		13,020
Computer services		7,026
Office supplies		5,284
Telecommunications		3,548
Insurance		2,544
Training		2,464
Postage		2,116
Employee parking		1,320
Association dues		1,183
Miscellaneous		249
	$	387,409

(8) Leases

The Council rents office space under an operating lease agreement which expires on August 31, 2007. As provided in the operating lease agreement, the Council exercised the lease option for certain office space on a month-to-month basis, beginning September 1, 2007. The Council paid $11,437 under the lease during the year ended June 30, 2007. Following is a schedule of future minimum lease payments, which includes lease payments on certain office equipment:

(8) Leases (Continued)

Year Ending June 30		Amount
2008	$	6,576
2009		4,580
2010		1,145
Future minimum lease payments	$	12,301

(9) Fund Balance

The Council has issued commitments to loan or grant funds to qualifying applicants for a period of time contingent on numerous actions to be completed by the applicants. As of June 30, 2007, $90,585,261 of available fund balance was designated by the Council for loans and grants. Additionally, the Council has designated $4,376,042 for contributions to two State agencies for the required State match for federally sponsored revolving funds.

The Council has entered into loan and grant agreements with various municipalities and other entities to provide no-interest or low-interest loans and grants in accordance with the Act. Amounts not distributed under these agreements amounted to $47,225,557 at June 30, 2007, and fund balance has been reserved to recognize these obligations. In addition, loans receivable of $350,288,709 represent amounts not available for appropriation and are reported as a reservation of fund balance. As required by the General Revenue Bond Resolution, $7,998,061, which is equal to the reserve fund requirement, is on deposit in four debt service reserve fund accounts and is reported as a reservation of fund balance. Finally, the balance of repayments of $3,116,040 on loans, which have been identified as defined loans because the repayments of those loans are reserved for debt service on the revenue and refunding bonds, is also reported as a reservation of fund balance.

(10) Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Statement of Net Assets

The portion of accrued interest receivable, $220,250, which is a long-term asset and not available to pay for current period expenditures, is not reported in the Special Revenue Fund and Debt Service Fund as an asset in the Governmental Funds Balance Sheet. All assets, both current and long-term, however, are reported in the Statement of Net Assets.

Long-term liabilities of the Council are not due and payable in the current period and accordingly are not reported in the Special Revenue Fund and the Debt Service Fund as fund liabilities in the Governmental Funds Balance Sheet. All liabilities, both current and

(10) Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Statement of Net Assets (Continued)

long term, however, are reported in the Statement of Net Assets. Balances at June 30, 2007, were:

General obligation bonds payable	$	286,930,536
Revenue and refunding bonds payable		123,898,565
Compensated absences		8,809
Accrued interest on bonds		3,253,049
Total adjustment	$	414,090,959

"Total fund balances" of the Council's governmental funds of $643,094,667 differs from "net assets" of governmental activities of $229,223,958 reported in the Statement of Net Assets as described above. This difference primarily results from the long-term economic focus of the Statement of Net Assets versus the current financial resources focus of the Governmental Funds Balance Sheet.

(11) Explanation of Certain Differences between the Governmental Fund Operating Statements and the Statement of Activities

Repayment of bond principal is reported as an expenditure in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. The principal payment of $66,835,000 during the year ended June 30, 2007, however, reduces the liability in the Statement of Net Assets and does not result in an expense in the Statement of Activities. Interest on long-term debt was adjusted $6,495,869 to reflect interest expense on the accrual basis in the Statement of Activities rather than the expenditure paid for interest, as is presented in governmental funds. This adjustment was increased by the amortization of the loss on refunding of bond issues of $253,813, discussed below. Offsetting that increase was the amortization of bonds payable premium of $232,878, also discussed below.

The expense related to an increase of $3,271 in the liability for compensated absences accrued during the year ended June 30, 2007, is reported in the Statement of Activities but does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds.

(11) Explanation of Certain Differences between the Governmental Fund Operating Statements and the Statement of Activities (Continued)

Bond issuance costs of $1,179,156 related to one series of refunding and one series of revenue bonds during the current year are reported as an expenditure in governmental funds and thus have the effect of reducing fund balance because current financial resources have been used. On an accrual basis, this amount is a deferred charge amortized using the straight-line method over the lives of the bonds and, therefore, only the current year amortization of $25,985 is expensed in the Statement of Activities. Likewise, bond issuance costs related to a prior year revenue bond issue were reported as an expenditure in governmental funds and had the effect of reducing fund balance the year of the bond issue when current financial resources were used. On an accrual basis, this amount is a deferred charge amortized using the straight-line method over the life of the revenue bonds and the current year amortization of $35,957 is expensed in the Statement of Activities. Since this expense does not require the use of current financial resources, it is not reported as an expenditure in governmental funds.

Receipts of bond proceeds from one series of refunding and one series of revenue bonds of $132,315,000, as well as the premium on both series of $6,534,482, are reported as other financing sources in governmental funds and have the effect of increasing fund balance because current financial resources have been provided. The receipts of bond proceeds, net of the unamortized premiums, however, are reflected as liabilities in the Statement of Net Assets and do not result in revenue in the Statement of Activities. Likewise, on an accrual basis, the premiums are not revenue but additions to the face amounts of the bonds payable and are amortized using the straight-line method over the life of the bonds. Only the current year premium amortization of $201,694 is reflected as a reduction of interest expense.

The portion of bond proceeds from prior year revenue bond issues that consisted of a premium was reported as an other financing source in governmental funds the year of the bond issue and had the effect of increasing fund balance because current financial resources were provided. On an accrual basis, the unamortized premium is an addition to the face amount of the revenue bonds payable and is amortized using the straight-line method over the life of the bonds. The current year amortization of $31,184 is reflected as a reduction of interest expense on the Statement of Activities. Since the amortized amount does not represent receipts of current financial resources, it is not reported as an other financing source in governmental funds.

(11) Explanation of Certain Differences between the Governmental Fund Operating Statements and the Statement of Activities (Continued)

The amount deducted in a prior year from the bond proceeds of a refunding bond issue, or the bond discount, was reported as an other financing use in governmental funds the year of the bond issue and had the effect of decreasing fund balance because current financial resources were used. On an accrual basis, the unamortized discount is a deduction from the face amount of the refunding bonds payable and is amortized using the straight-line method over the life of the bonds. The current year amortization of $7,577 is reflected as an expense on the Statement of Activities. Since the amortized amount does not represent expenditures of current financial resources, it is not reported as an other financing use in governmental funds.

Payment to the escrow agent of $45,364,216 came from refunding bond proceeds and is reported as an other financing use in governmental funds. That payment had the effect of decreasing fund balance because current financial resources were used. Because that amount represents the reacquisition price of two series of general obligation bonds that were partially refunded, to the extent that amount exceeded the carrying amount of the bonds refunded, that amount is reflected as a loss on refunding. On an accrual basis, the loss on refunding is not an expense but a deduction from the face amount of the refunding bonds payable and is amortized using the straight-line method over the life of the bonds. The current year amortization of $126,380 is reflected as an increase to interest expense.

Payments of two call premiums of $1,064,100 during the year are reported as an expenditure because current financial resources were used. Because that amount represents part of the reacquisition price of two series of general obligation bonds that were partially refunded, it is reflected as a loss on refunding. On an accrual basis, the loss on refunding is not an expense but a deduction from the face amount of the refunding bonds payable and is amortized using the straight-line method over the life of the bonds. The current year amortization of $41,225 is reflected as an increase to interest expense.

Prior year payments to the escrow agent from refunding bond proceeds and from other resources of the Council were reported as an other financing use in governmental funds and as a debt service expenditure in governmental funds, respectively, in a prior year and had the effect of decreasing fund balance because current financial resources were used. To the extent those amounts exceeded the carrying amount of the bonds refunded, those amounts were a loss on refunding. On an accrual basis, the loss on refunding is not an expense but a deduction from the face amount of the refunding bonds payable and is amortized using the straight-line method over the life of the bonds. The current year amortization of prior year losses on refundings of $86,208 is reflected as an increase to interest expense. Since this expense does not require the use of current financial resources, it is not reported as an expenditure in governmental funds.

(11) Explanation of Certain Differences between the Governmental Fund Operating Statements and the Statement of Activities (Continued)

The $90,000 increase in charges for services represents interest on loans not included as income in governmental funds because it is not collectible within the current period but included as revenue on an accrual basis.

(12) Risk Management

The Council is exposed to various risks of loss related to torts, theft of assets, errors and omissions, injuries to and illnesses of Authority employees and natural disasters. Through its participation in Brickstreet Mutual Insurance Company ("Brickstreet") and the West Virginia Public Employees Insurance Agency ("PEIA"), the Authority obtains coverage for job-related injuries of and health coverage for its employees, including the employees whose payroll costs are reimbursed by the Council. In exchange for the payment of premiums to Brickstreet and PEIA, the risk related to job-related injuries and health coverage is transferred to these entities. 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. Such coverage is offered in exchange for an annual premium, which is partially reimbursed by the Council.

(13) Restricted Net Assets

Restrictions of net assets are the result of constraints placed on net asset use which have been imposed through debt covenants and by law through enabling legislation. The government-wide Statement of Net Assets reports $211,359,954 restricted net assets, of which $82,600,714 is restricted by enabling legislation for loans and grants and $128,759,240 is restricted by debt covenants for debt service on the revenue, refunding, and general obligation bonds.

(14) Agency Fund

During the year ended June 30, 2002, $1.5 million was appropriated to the West Virginia Economic Development Authority by House Bill 4672 from the State Treasurer's Abandoned Property Claims Trust Fund and is administered by the Council in a purely custodial capacity. The funds were received, temporarily invested and are disbursed as grants for various water and wastewater projects in accordance with instructions from the West Virginia Economic Development Authority (see Statement on page 12).

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
West Virginia Infrastructure and Jobs Development Council
Budgetary Comparison Schedule – Special Revenue Fund
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Budget to GAAP	Actual Amounts
	Original	**Final**	**Budgetary Basis**	**Differences**	**GAAP Basis**
Budgetary fund balance, July 1, 2006	$ -	$ -	$ -	$ -	$ -
Resources (inflows)					
Excess lottery revenue	40,000,000	40,000,000	40,000,000	-	40,000,000
Amounts available for appropriation	40,000,000	40,000,000	40,000,000	-	40,000,000
Charges to appropriations (outflows)	(40,000,000)	(40,000,000)	(40,000,000)	-	(40,000,000)
Budgetary fund balance, June 30, 2007	$ -	$ -	$ -	$ -	$ -

(1) West Virginia Code §29-22-18a ("Section 18a") created within the State's lottery fund in the State Treasury an excess lottery revenue fund from which moneys are disbursed in specific allocations to various State accounts, including the Council. If there are not sufficient revenues to fully comply with the funding requirements of Section 18a, remaining funds are distributed first to the economic development project fund; second, to the other funds from which debt service is to be paid; third, to the education improvement fund for appropriation by the Legislature to the promise scholarship fund; fourth, to the general purpose account to be expended pursuant to appropriation by the Legislature provided that, to the extent such revenues are not pledged in support of revenue bonds which are or may be issued from time to time under Section 18a; and then on a pro rata basis to the remaining State accounts, including the Council.

During the year ended June 30, 2007, $40 million of excess lottery revenue was appropriated for and received by the Council.

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
FINANCIAL ACCOUNTING AND REPORTING SECTION

FORM 8

GAAP REPORTING FORM - INVESTMENTS DISCLOSURE

Audited Agency **West Virginia Infrastructure and Jobs Development Council**

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 financial statements.

	Reported Amount Unrestricted	Reported Amount Restricted	Custodial Credit Risk: Category 1 (Based on reported amounts)	Category 2	Category 3	Reported Amount**	Fair Value	Credit Ratings: Standard & Poor's	Moody's	Fitch	Interest Rate Risk - Segmented Time Distribution, Investment Maturities (in years): Less than 1	1 - 5	6 - 10	More than 10	Foreign Currency Risk: Currency Type	Maturity	Fair Value
Investments with Board of Treasury Investments (BTI) Per Opening Balance Report	-	345,745				345,745	345,745										
Investment Earnings not Posted to WVFIMS As of 6/30/07	-	1,536				1,536	1,536										
Investments Outside BTI																	
Mutual Money Market Funds	8,034,271	150,772,724	-	-	-	158,806,995	158,806,995	AAAm	Aaa	AAA	158,806,995						
Guaranteed Investment Contract	9,779,692	115,659,619	-	-	-	125,439,311 (F)	125,439,311	AA-	Aa2	AA		125,439,311					
Guaranteed Investment Contract	-	5,758,222	-	-	-	5,758,222 (F)	5,758,222	AAA	Aaa	AAA			5,758,222				
Guaranteed Investment Contract	-	1,086,549	-	-	-	1,086,549 (F)	1,086,549	AA	Aa3	AA+	1,086,549						
Total	17,813,963	273,624,395	0	0	0	291,438,358	291,438,358				159,893,544	125,439,311	5,758,222	0			0

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

Collateral Description on the Repurchase Agreements	Fair Market Value of Collateral
Not Applicable	

**NOTE: THE REPORTED AMOUNTS SHOULD BE IDENTIFIED AS EITHER AMORTIZED COST (A) OR FAIR VALUE (F).

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
FINANCIAL ACCOUNTING AND REPORTING SECTION

FORM 8

GAAP REPORTING FORM - INVESTMENTS DISCLOSURE

Audited Agency **West Virginia Infrastructure and Jobs Development Council-AGENCY FUND**

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 financial statements

	Reported Amount Unrestricted	Reported Amount Restricted	Custodial Credit Risk: Category 1 (Based on reported amounts)	Category 2	Category 3	Reported Amount**	Fair Value	Credit Ratings: Standard & Poor's	Moody's	Fitch	Interest Rate Risk - Segmented Time Distribution, Investment Maturities (in years): Less than 1	1 - 5	6 - 10	More than 10	Foreign Currency Risk: Currency Type	Maturity	Fair Value
Investments Outside BTI.																	
Mutual Money Market Funds		48,913	-	-	-	48,913	48,913	AAAm	Aaa	AAA	48,913						
Total	0	48,913	0	0	0	48,913	48,913				48,913	0	0	0			0

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

Collateral Description on the Repurchase Agreements	Fair Market Value of Collateral
Not Applicable	

**NOTE: THE REPORTED AMOUNTS SHOULD BE IDENTIFIED AS EITHER AMORTIZED COST (A) OR FAIR VALUE (F).

See Independent Auditors' Report

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
FINANCIAL ACCOUNTING AND REPORTING SECTION

GAAP REPORTING FORM - INVESTMENTS DISCLOSURE

Audited Agency **West Virginia Infrastructure and Jobs Development Council-AGENCY FUND**

Concentration of Credit Risk - Agency Fund

As of June 30, 2007, the Council's Agency Fund had an investment balance with the following issuer which is greater than or equal to of the investment balance:

Type	Issuer	Percentage of Investments
Money Market	Federated Government Obligations Fund	100%

See Independent Auditors' Report.

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
FINANCIAL ACCOUNTING AND REPORTING SECTION

FORM 8A

GAAP REPORTING FORM - DEPOSITS AND INVESTMENTS RECONCILIATION

Audited Agency **West Virginia Infrastructure and Jobs Development Council**

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

Deposits:	
Cash equivalents as reported on balance sheet	$159,154,276
Less: cash equivalents disclosed as investments	(159,154,276)
Carrying amount of deposits as disclosed on Form 7	0
Investments:	
Investments as reported on balance sheet	$132,284,082
Add: cash equivalents disclosed as investments	159,154,276
Reported amount of investments as disclosed on Form 8	$291,438,358

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
FINANCIAL ACCOUNTING AND REPORTING SECTION

FORM 15

GAAP REPORTING FORM - TRANSFERS IN/OUT

Audited Agency **West Virginia Infrastructure and Jobs Development Council**

Indicate amounts transferred from/to your agency as of June 30, 2007.

WVFIMS Doc. ID	Agency Transferring From	WVFIMS FUND	Agency Transferring To	WVFIMS FUND	Amount
D001253482	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	$ 178,496.69
D001252611	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	146,795.14
D001252628	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	196,712.42
D001252276	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	11,553.23
D001251415	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	84,510.70
D001250874	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	26,816.81
D001249561	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	1,609,872.81
D001250530	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	25,212.63
D001249146	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	23,394.46
D001255565	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	15,452.68
D001255017	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	269,452.69
D001255007	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	5,903.74
D001255165	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	169,842.73
D001254683	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	367,913.99
D001254693	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	2,363.79
D001253460	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	674,644.71
*Do not include IGT's, Reimbursements or Expense to Expense transactions			**Total**		$ 3,808,939.22

Explain Transfers In/Out amounts greater than or equal to $1,000,000.

See Independent Auditors' Report.

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
FINANCIAL ACCOUNTING AND REPORTING SECTION

FORM 15

GAAP REPORTING FORM - TRANSFERS IN/OUT

Audited Agency **West Virginia Infrastructure and Jobs Development Council**

Indicate amounts transferred from/to your agency as of June 30, 2007.

WVFIMS Doc. ID	Agency Transferring From	WVFIMS FUND	Agency Transferring To	WVFIMS FUND	Amount
D001255865	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	$ 780.56
D001256646	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	4,378,044.35
D001256663	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	176,331.00
D001256666	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	3,148,017.61
D001256209	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	6,797,895.27
D001256193	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	11,462,444.12
D001255866	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	238,014.42
D001255862	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	277,337.51
D001255940	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	389,592.56
D001255485	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	83,539.21
D001257092	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	(6,621,659.35)
D001256545	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	(139,276.48)
*Do not include IGT's, Reimbursements or Expense to Expense transactions			Total		$ 20,191,060.78
			Grand Total		$ 24,000,000.00

Explain Transfers In/Out amounts greater than or equal to $1,000,000.

See Independent Auditors' Report.

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
FINANCIAL ACCOUNTING AND REPORTING SECTION

FORM 15

GAAP REPORTING FORM - TRANSFERS IN/OUT

Audited Agenc **West Virginia Infrastructure and Jobs Development Council**

Indicate amounts transferred from/to your agency as of June 30, 2007.

WVFIMS Doc. ID	Agency Transferring From	WVFIMS FUND	Agency Transferring To	WVFIMS FUND	Amount
None	WV Infrastructure and Jobs Development Council	Trustee	WV Clean Water State Revolving Fund	3329	$ 2,730,182.00
None	WV Infrastructure and Jobs Development Council	Trustee	WV Drinking Water Treatment Revolving Fund	3386	1,657,100.00
					$ 4,387,282.00
E000681474	Department of Revenue/Lottery	7203/7205	WV Infrastructure Transfer Fund	3390	12,799,395.00
E000685781	Department of Revenue/Lottery	7203/7205	WV Infrastructure Transfer Fund	3390	21,218,881.00
E000690211	Department of Revenue/Lottery	7203/7205	WV Infrastructure Transfer Fund	3390	5,981,724.00
					$ 40,000,000.00
E000685732	WV Infrastructure Transfer Fund	3390	WV Infrastructure Fund	3384	12,799,395.00
E000686741	WV Infrastructure Transfer Fund	3390	WV Infrastructure Fund	3384	21,218,881.00
E000691227	WV Infrastructure Transfer Fund	3390	WV Infrastructure Fund	3384	5,981,724.00
					$ 40,000,000.00

*Do not include IGT's, Reimbursements or Expense to Expense transactions

Explain Transfers In/Out amounts greater than or equal to $1,000,000. Severance tax - $24,000,000
West Virginia Clean Water State Revolving Fund and West Virginia Drinking Water Treatment Revolving Fund State Matches - $4,387,282
Excess Lottery Revenue - $40,000,000

See Independent Auditors' Report.

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 Members of the
West Virginia Infrastructure and Jobs Development Council
Charleston, West Virginia

We have audited the financial statements of the West Virginia Infrastructure and Jobs Development Council (the Council) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 5, 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 Council'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 Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council'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.

300 CHASE TOWER | 707 VIRGINIA STREET, EAST | CHARLESTON, WV 25301 | PHONE: 304.345.8400 | FAX: 304.345.8451

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council'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 Council, 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.

Gibbons & Kawash

October 5, 2007