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**West Virginia Infrastructure and Jobs Development Council  
Financial Statements With Supplementary Information  
Year Ended June 30, 2008**

**WITH INDEPENDENT AUDITORS' REPORT**

# West Virginia Infrastructure and Jobs Development Council

Financial Statements  
Year Ended June 30, 2008

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## Table of Contents

	<u>Page</u>
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis .....	3-10
Financial Statements:	
Governmental Funds Balance Sheet/Statement of Net Assets .....	11
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities .....	12
Notes to Financial Statements.....	13-32
Required Supplementary Information:	
Budgetary Comparison Schedule – Special Revenue Fund.....	33
Note to Required Supplementary Information – Budgetary Reporting .....	34
Supplementary Information:	
Form 8 – Investments Disclosure .....	35
Form 8A – Deposits and Investments Reconciliation .....	36
Form 15 – Transfers In/Out.....	37-38
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	39-40

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
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, 2008, 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 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, 2008, and the changes in financial position 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 13, 2008, 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 important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 to 10 and the Budgetary Comparison Schedule – Special Revenue Fund and the accompanying note on pages 33 and 34 are not a required part of the 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Council. The accompanying schedules on pages 35 to 38 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Johnson & Kawash*

October 13, 2008

# 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, 2008. Please read it in conjunction with the Council's financial statements, which begin on page 11.

## 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 \$29.4 million, from \$642.9 million to \$672.3 million, or about 4.57%.
- Total liabilities increased from \$117 thousand in the prior year to \$226 thousand in the current year or about 93%.
- Excess of revenues, transfers in and other financing sources over expenditures, transfers out and other financing uses decreased \$42.1 million or about 58.9%. This amount was higher the prior year primarily because \$38.2 million of proceeds from a revenue bond issue was transferred to this fund from the Debt Service Fund during the prior year.

### Debt Service Fund:

- Total assets decreased \$122 thousand, from \$348 thousand to \$226 thousand, or about 35%.
- Excess (deficiency) of revenues, transfers in and other financing sources over expenditures, transfers out and other financing uses decreased \$220 thousand, from \$98 thousand to (\$122) thousand, or about 224%.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

## FINANCIAL HIGHLIGHTS (Continued)

Government Wide:

- Total assets increased \$29.4 million or about 4.56%.
- Total liabilities decreased \$9.8 million or about 2.37%.
- Net assets increased \$39.2 million or about 17.1%. Expenses increased by \$1.7 million and total revenues increased \$335 thousand.

## 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:

	<b>Table 1</b>	
	<b>Net Assets</b>	
	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash equivalents	\$ 178,682,616	\$ 159,154,276
Investments	117,243,246	132,284,082
Loans receivable, net of allowances	375,511,007	350,288,709
Other	<u>1,390,973</u>	<u>1,705,368</u>
<b>Total assets</b>	<b>672,827,842</b>	<b>643,432,435</b>
<b>Liabilities</b>		
Bonds payable	401,076,500	410,829,101
Other	<u>3,308,341</u>	<u>3,379,376</u>
<b>Total liabilities</b>	<b>404,384,841</b>	<b>414,208,477</b>
<b>Net assets</b>		
Restricted	241,827,435	211,359,954
Unrestricted	<u>26,615,566</u>	<u>17,864,004</u>
	<u>\$ 268,443,001</u>	<u>\$ 229,223,958</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**Table 2**  
**Changes in Net Assets**

	<u>2008</u>	<u>2007</u>
<b>Revenues</b>		
<b>Program revenues</b>		
Charges for services	\$ 2,779,427	\$ 2,113,842
<b>Total program revenues</b>	<u>2,779,427</u>	<u>2,113,842</u>
<b>General revenues</b>		
Intergovernmental	64,000,000	64,000,000
Investment earnings	11,889,330	12,249,444
Other	29,677	-
<b>Total general revenues</b>	<u>75,919,007</u>	<u>76,249,444</u>
<b>Total revenues</b>	<u>78,698,434</u>	<u>78,363,286</u>
<b>Expenses</b>		
General and administrative	397,398	390,680
Interest on long-term debt	20,491,563	20,636,066
Amortization	89,803	69,519
Infrastructure and economic development	15,200,627	16,660,483
Loss on uncollectible loans	3,300,000	-
<b>Total expenses</b>	<u>39,479,391</u>	<u>37,756,748</u>
<b>Change in net assets</b>	39,219,043	40,606,538
<b>Beginning net assets</b>	<u>229,223,958</u>	<u>188,617,420</u>
<b>Ending net assets</b>	<u>\$ 268,443,001</u>	<u>\$ 229,223,958</u>

“Cash equivalents,” which include short-term, highly liquid investments with original maturities of 90 days or less, increased \$19.3 million, from \$159.1 million last year to \$178.7 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 and investment earnings.

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 \$15 million primarily as the result of maturities of investments of \$1.1 million, disbursements of loans and grants of \$14 million and payments of \$4.98 million required State matches for the federally sponsored Drinking Water Treatment and Clean Water State Revolving Funds. Offsetting those decreases was the reinvestment of current year investment earnings of \$5 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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**“Loans receivable”** on the Governmental Funds Balance Sheet/Statement of Net Assets had a net increase of \$25.2 million. This increase was primarily the combined effect of disbursements of new and prior year loan funds to projects of \$40.3 million, less repayments of principal on loans of \$12.3 million and an increase in the allowance for doubtful accounts of \$3.3 million.

**“Total liabilities”** decreased \$9.8 million related mostly to bonds payable. Current year principal payments on outstanding debt of \$14.6 million decreased bonds payable. Offsetting that decrease was a \$4.79 million increase in general obligation bonds for interest accreted on those bonds during the current year. The net decrease in bonds payable resulted in a corresponding decrease 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 \$30.5 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 \$14 million of interest on loans and investment earnings. Offsetting the increases were disbursements of \$15.2 million for grants and the State matches for the federally sponsored Drinking Water Treatment and Clean Water State Revolving Funds, \$20.5 million of interest expense related to revenue and general obligation bonds, a loss of \$3.3 million incurred on uncollectible loans and \$9.4 million of investment earnings 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 which increased during the current year. Even though loans receivable had a net increase of \$25.2 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 2008. 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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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 \$12.2 million and \$11.9 million, respectively. Despite the increase in funds invested, including \$40 million of excess lottery revenue received between February and April of the current year, interest rates for the money market accounts in which most of the Council's funds are invested steadily decreased during the year, from 4.91% at the beginning of the year to 1.95% at the end of the year for one money market account and from 5.20% at the beginning of the year to 2.55% at the end of the year for the other money market account.

**“Interest on long-term debt”** decreased slightly by \$144 thousand. This is consistent with the prior year partial refunding of three series of bonds at lower rates of interest. Additionally, no new debt was issued during the current year and outstanding debt was reduced by current year principal payments.

**“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 \$1.46 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 \$606 thousand more than the prior year. There was, however, a \$2.1 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, 2008, \$149.8 million of Special Revenue Fund balance was designated by the Council for loan and grant commitments. Additionally, \$1.65 million was designated by the Council for contribution of State match for the Drinking Water Treatment Revolving Fund.

The \$226 thousand of fund balance reserved in the Debt Service Fund represents amounts reserved for debt service.

The \$423.4 million of fund balance reserved in the Special Revenue Fund includes \$36.6 million that has been committed but not distributed to projects with which the Council has entered into loan and grant agreements. The remaining \$386.8 million consists of \$375.5 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 \$3.27 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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## 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, 2008, \$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.

At year-end, \$402.5 million (prior to amortization) in general obligation, revenue and refunding bonds issued for the benefit of the Council were outstanding versus \$412.3 million in the prior year, a decrease of 2.4% resulting from current year scheduled principal payments and the net effect of partially refunding general obligation debt in the prior year, offset by current year accreted interest on capital appreciation bonds. For more information on long-term debt, please refer to Note 4 to the financial statements.

On June 5, 2008, Standard & Poor’s downgraded from AAA to AA the Ambac Financial Group, the bond insurer for the West Virginia Water Development Authority, Infrastructure Revenue Bonds (West Virginia Infrastructure and Jobs Development Council Program), 2003 Series A. As required, on June 26, 2008, the Authority submitted written Notices of Material Event Filing (Rating Agency Change) to the Municipal Securities Rulemaking Board and electronic notices to the Nationally Recognized Municipal Securities Information Repositories through Disclosure USA.

# **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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## **DEBT ADMINISTRATION (Continued)**

The downgrade of the bond insurer did not result in any event of default and does not affect the fixed interest rates paid on bonds issued on behalf of the Council by the Authority. Any downward revision or withdrawal of any such rating could have an adverse effect on the secondary market price of the bonds issued on behalf of the Council by the Authority. The Authority's outstanding bonds were originally issued with a rating of AAA by Standard & Poor's on the understanding that the standard insurance policy purchased guaranteed the timely payment of principal of and interest on the bonds. There is no assurance that a particular rating will continue for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of Standard & Poor's, circumstances so warrant.

The Authority's (and thereby, the Council's) underlying rating of A- from Standard & Poor's reflects the State's moral obligation, which is one full category below the State's AA- rating. Ultimately, rating strength is provided by the Authority's pledge to maintain a debt service reserve fund equal to the maximum annual debt service on all outstanding revenue bonds and servicing of underlying loans. If the amount in the reserve funds falls below the required maximum annual debt service level, the Governor, on notification by the Authority, may request the State's Legislature to appropriate the necessary funds to replenish the reserve to its required level. The State's Legislature, however, is not legally required to make such appropriation.

The Authority continues to monitor the status of its bond insurers and is considering options for issuance of future bonds without an insurance policy.

## **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 2009 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.

During the year, the Council experienced payment defaults on two economic development project loans. Because of the uncertainty on the future repayment of these loans, as well as other economic development project loans, the Council established a reserve for uncollectible economic development project loans to recognize current events.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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### **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 Executive Director or Secretary/Treasurer, West Virginia Water Development Authority, 180 Association Drive, Charleston, West Virginia 25311 (Phone: 304-558-3612 Extension 108) or the Executive Director, West Virginia Infrastructure and Jobs Development Council, 300 Summers Street, Suite 980, Charleston, West Virginia 25301 (Phone: 304-558-4607).

# West Virginia Infrastructure and Jobs Development Council

## Governmental Funds Balance Sheet/Statement of Net Assets June 30, 2008

	Special <u>Revenue Fund</u>	Debt <u>Service Fund</u>	Total	Adjustments	Statement of Net Assets
<b>ASSETS</b>					
Cash equivalents	\$ 178,456,221	\$ 226,395	\$ 178,682,616	\$ -	\$ 178,682,616
Investments	117,243,246	-	\$ 117,243,246	-	117,243,246
Accrued interest receivable	1,056,784	-	1,056,784	310,250	1,367,034
Loans receivable, net of allowances of \$3,300,000	375,511,007	-	375,511,007	-	375,511,007
Miscellaneous receivable	23,939	-	23,939	-	23,939
Total assets	<u>672,291,197</u>	<u>226,395</u>	<u>672,517,592</u>	<u>310,250</u>	<u>672,827,842</u>
<b>LIABILITIES</b>					
Accounts payable	29,898	-	29,898	-	29,898
Arbitrage rebate payable	92,198	-	92,198	-	92,198
Due to other State of West Virginia agencies	103,916	-	103,916	-	103,916
Accrued interest payable	-	-	-	3,072,658	3,072,658
Compensated absences	-	-	-	9,671	9,671
General obligation bonds					
Due within one year, net of unamortized premium of \$294,820, unamortized issue costs of \$32,598 and losses on refunding of \$251,408	-	-	-	13,390,814	13,390,814
Due after one year, net of unamortized premium of \$5,110,209, unamortized issue costs of \$565,034 and losses on refunding of \$3,812,894	-	-	-	265,300,923	265,300,923
Revenue Bonds					
Due within one year, net of unamortized premium of \$47,730, unamortized discount and issue costs of \$57,204 and losses on refunding of \$86,726	-	-	-	1,558,800	1,558,800
Due after one year, net of unamortized premium of \$1,543,167, unamortized discount and issue costs of \$1,589,635 and losses on refunding of \$2,002,569	-	-	-	120,825,963	120,825,963
Total liabilities	<u>226,012</u>	<u>-</u>	<u>226,012</u>	<u>404,158,829</u>	<u>404,384,841</u>
<b>FUND BALANCES/NET ASSETS</b>					
Fund balances					
Reserved	423,368,442	226,395	423,594,837	(423,594,837)	-
Unreserved, designated	151,426,951	-	151,426,951	(151,426,951)	-
Unreserved, undesignated	97,269,792	-	97,269,792	(97,269,792)	-
Total fund balances	<u>672,065,185</u>	<u>226,395</u>	<u>672,291,580</u>	<u>(672,291,580)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 672,291,197</u>	<u>\$ 226,395</u>	<u>\$ 672,517,592</u>		
Net assets					
Restricted				241,827,435	241,827,435
Unrestricted				26,615,566	26,615,566
Total net assets				<u>\$ 268,443,001</u>	<u>\$ 268,443,001</u>

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

# West Virginia Infrastructure and Jobs Development Council

## Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities Year Ended June 30, 2008

	Special Revenue <u>Fund</u>	Debt Service <u>Fund</u>	<u>Total</u>	<u>Adjustments</u>	Statement of <u>Activities</u>
<b>Expenditures/Expenses</b>					
Infrastructure and economic development	\$ 15,200,627	\$ -	\$ 15,200,627	\$ -	\$ 15,200,627
Debt Service					
Principal	-	14,625,000	14,625,000	(14,625,000)	-
Interest	-	15,889,358	15,889,358	4,602,205	20,491,563
Amortization	-	-	-	89,803	89,803
Loss on uncollectible loans	3,300,000	-	3,300,000	-	3,300,000
General and administrative	<u>396,536</u>	<u>-</u>	<u>396,536</u>	<u>862</u>	<u>397,398</u>
<b>Total Expenditures/Expenses</b>	<u>18,897,163</u>	<u>30,514,358</u>	<u>49,411,521</u>	<u>(9,932,130)</u>	<u>39,479,391</u>
<b>Program Revenues</b>					
Charges for services	<u>2,689,427</u>	<u>-</u>	<u>2,689,427</u>	<u>90,000</u>	<u>2,779,427</u>
<b>Total Program Revenues</b>	<u>2,689,427</u>	<u>-</u>	<u>2,689,427</u>	<u>90,000</u>	<u>2,779,427</u>
<b>Net Program Expense</b>					<u>36,699,964</u>
<b>General Revenues</b>					
Intergovernmental	40,000,000	24,000,000	64,000,000	-	64,000,000
Investment earnings, net of arbitrage rebate	11,476,770	412,560	11,889,330	-	11,889,330
Other nonoperating revenues	1,568	-	1,568	-	1,568
Miscellaneous	28,109	-	28,109	-	28,109
Transfers	<u>(5,980,103)</u>	<u>5,980,103</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total General Revenues and Transfers</b>	<u>45,526,344</u>	<u>30,392,663</u>	<u>75,919,007</u>	<u>-</u>	<u>75,919,007</u>
<b>Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out</b>	29,318,608	(121,695)	29,196,913	(29,196,913)	-
<b>Change in Net Assets</b>	-	-	-	39,219,043	39,219,043
<b>Fund Balances/Net Assets</b>					
Beginning of the year	<u>642,746,577</u>	<u>348,090</u>	<u>643,094,667</u>	<u>(413,870,709)</u>	<u>229,223,958</u>
End of the year	<u>\$ 672,065,185</u>	<u>\$ 226,395</u>	<u>\$ 672,291,580</u>	<u>\$ (403,848,579)</u>	<u>\$ 268,443,001</u>

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

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements

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### (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

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

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### (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.

#### Allowance for Uncollectible Loans

The Council uses the allowance method of providing for loan losses on economic development project loans. The provision for loan losses charged to operating expense is based on factors which deserve current recognition in estimating possible losses, such as growth and composition of the loan portfolio, relationship of the allowance for uncollectible loans 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 for economic development projects and the related allowance may materially change in the near term. The amount of the change that is reasonably possible, however, cannot be estimated.

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

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### (2) Significant Accounting Policies (Continued)

The Council has not established an allowance for uncollectible loans in its loan portfolio for water and wastewater projects because of remedies available to it in the loan agreements that exist between the Authority on behalf of the Council and the various entities to which the loans were made.

#### 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, 2008, in accordance with GASB Statement No. 16.

#### 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.

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

### (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 West Virginia Money Market Pool.

#### Interest Rate Risk – West Virginia Money Market Pool

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The West Virginia Money Market Pool is subject to interest rate risk.

The overall weighted average maturity of the investments of the West Virginia 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 West Virginia Money Market Pool:

<u>Security Type</u>	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 371,163	1
U.S. Treasury bills	406,426	31
Commercial paper	658,879	29
Certificates of deposit	147,001	95
U.S. agency discount notes	212,924	84
Corporate notes	158,000	21
U.S. agency bonds/notes	254,019	111
Money market funds	150,058	1
	<u>\$ 2,358,470</u>	40

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

(3) Deposit and Investment Risk Disclosures (Continued)

Interest Rate Risk – All Other Investments

As of June 30, 2008, 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	\$ 117,243,246	\$ 111,485,024	\$ -	\$ 5,758,222
Money Markets	<u>178,456,303</u>	<u>178,456,303</u>	<u>-</u>	<u>-</u>
	<u>\$ 295,699,549</u>	<u>\$ 289,941,327</u>	<u>\$ -</u>	<u>\$ 5,758,222</u>

As a means of limiting its exposure to fair value losses arising from changing 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 – West Virginia Money Market Pool

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

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

### (3) Deposit and Investment Risk Disclosures (Continued)

#### Concentration of Credit Risk – All Other Investments

As of June 30, 2008, 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 - Guaranteed Investment Contracts	Citizens Bank of Pennsylvania	38%
Money Markets	Federated Prime Obligations Fund	28%
	Federated Government Obligations Fund	32%

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 below:

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

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

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

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### (3) Deposit and Investment Risk Disclosures (Continued)

#### Concentration of Credit Risk – All Other Investments (Continued)

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 – West Virginia Money Market Pool

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The West Virginia 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. The BTI, as a whole, has not been rated for credit risk by any organization. The West Virginia Money Market Pool is subject to credit risk. The BTI limits the exposure to credit risk in the West Virginia 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. The table on the next page provides information on the credit ratings of the West Virginia Money Market Pool’s investments (in thousands):

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

(3) Deposit and Investment Risk Disclosures (Continued)

Credit Risk – West Virginia Money Market Pool (Continued)

Security Type	Credit Rating		Carrying Value in Thousands	Percent of Pool Assets
	Moody's	S&P		
<b>Investments:</b>				
Commercial paper	P1	A-1	\$ 658,879	27.94%
Corporate bonds and notes	Aaa	AAA	40,000	1.70
	Aa3	AA	20,000	0.85
	Aa2	A	27,000	1.14
	Aa1	AA	71,000	3.01
Total corporate bonds and notes			158,000	6.70
U.S. agency bonds	Aaa	AAA	254,019	10.77
U.S. Treasury bills	Aaa	AAA	406,426	17.23
Negotiable certificates of deposit	P1	A-1	147,001	6.23
U.S. agency discount notes	P1	A-1	212,924	9.03
Money market funds	Aaa	AAA	150,058	6.36
<b>Repurchase agreements (underlying securities):</b>				
U.S. Treasury notes	Aaa	AAA	62,265	2.64
U.S. agency notes	Aaa	AAA	308,898	13.10
Total investments			\$ 2,358,470	100.00%

Credit Risk – All Other Investments

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

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

(3) Deposit and Investment Risk Disclosures (Continued)

Credit Risk – All Other Investments (Continued)

<u>Security Type</u>	<u>Moody's</u>	<u>Standard &amp; Poor's</u>	<u>Fair Value</u>
Bond Proceeds:			
Guaranteed Investment Contracts	Aaa	AAA	\$ 5,758,222
Guaranteed Investment Contracts	Aa3	AA-	452,875
Money Markets	Aaa	AAAm	<u>2,839,701</u>
Total Bond Proceeds			9,050,798
Other Revenues:			
Guaranteed Investment Contracts	Aa3	AA-	111,032,149
Money Markets	Aaa	AAAm	175,616,602
West Virginia Money Market Pool	See Above	See Above	<u>226,313</u>
Total Other Revenues			286,875,064
<b>Total Bond Proceeds and Other Revenues</b>			<b><u>\$ 295,925,862</u></b>

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.

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

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### (3) Deposit and Investment Risk Disclosures (Continued)

#### Custodial Credit Risk – West Virginia Money Market 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 West Virginia Money Market 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, 2008, 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 on the following page:

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

### (3) Deposit and Investment Risk Disclosures (Continued)

As disclosed in this Note:

Total investments		\$	295,925,862
Less: cash equivalents			(178,682,616)
Carrying amount of investments		\$	<u>117,243,246</u>

As reported on the Governmental Funds

Balance Sheet/Statement of Net Assets:			
Investments		\$	<u>117,243,246</u>

### (4) Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2008:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Debt</u> <u>Additions/</u> <u>Accretions</u>	<u>Debt</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>
<b>General Obligation Bonds*</b>				
1996 Series A, B, C, D and E	\$ 33,060,000	\$ -	\$ 2,610,000	\$ 30,450,000
1998 Series A, B and C	44,385,000	-	2,400,000	41,985,000
1999 Series B and C	20,350,000	-	1,025,000	19,325,000
1999 Series A Capital Appreciation	94,201,629	4,787,013	6,950,000	92,038,642
2006 Series Refunding	<u>94,180,000</u>	<u>-</u>	<u>30,000</u>	<u>94,150,000</u>
	286,176,629	4,787,013	13,015,000	277,948,642
<b>Revenue and Refunding Bonds</b>				
2003 Series A	33,255,000	-	1,025,000	32,230,000
2006 Series A	44,600,000	-	530,000	44,070,000
2006 Series B	10,150,000	-	55,000	10,095,000
2007 Series A	<u>38,135,000</u>	<u>-</u>	<u>-</u>	<u>38,135,000</u>
	126,140,000	-	1,610,000	124,530,000
<b>Compensated Absences</b>	<u>8,809</u>	<u>862</u>	<u>-</u>	<u>9,671</u>
	<u>\$ 412,325,438</u>	<u>\$ 4,787,875</u>	<u>\$ 14,625,000</u>	<u>\$ 402,488,313</u>

\*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.

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

(4) Long-Term Debt (Continued)

Future maturities of principal and interest of general obligation bonds, with interest rates ranging from 4.00% to 7.625% and maturing through 2027, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2013	<u>7,805,000</u>	<u>8,061,936</u>	<u>15,866,936</u>
	<u>35,405,000</u>	<u>44,377,277</u>	<u>79,782,277</u>
2014 - 2018	46,530,000	33,099,618	79,629,618
2019 - 2023	51,375,000	19,034,590	70,409,590
2024 - 2027	<u>52,600,000</u>	<u>4,999,679</u>	<u>57,599,679</u>
	<u>150,505,000</u>	<u>57,133,887</u>	<u>207,638,887</u>
Total	<u>185,910,000</u>	<u>\$ 101,511,164</u>	<u>\$ 287,421,164</u>

Capital Appreciation Bonds

	<u>Principal, net of amounts to be accreted in future years</u>	<u>Amounts to be accreted in future years</u>	<u>Total</u>
2009	\$ 6,938,924	\$ 111,076	\$ 7,050,000
2010	6,655,733	444,267	7,100,000
2011	6,275,078	774,922	7,050,000
2012	5,887,116	1,087,884	6,975,000
2013	<u>5,723,535</u>	<u>1,426,465</u>	<u>7,150,000</u>
	<u>31,480,386</u>	<u>3,844,614</u>	<u>35,325,000</u>
2014 - 2018	24,195,354	11,304,646	35,500,000
2019 - 2023	21,291,768	20,358,232	41,650,000
2024 - 2027	<u>15,071,134</u>	<u>22,428,866</u>	<u>37,500,000</u>
	<u>60,558,256</u>	<u>54,091,744</u>	<u>114,650,000</u>
Total capital appreciation bonds	<u>92,038,642</u>	<u>\$ 57,936,358</u>	<u>\$ 149,975,000</u>
Total general obligation bonds	<u>\$ 277,948,642</u>		
Add: unamortized premium	5,405,029		
Less: unamortized issue costs	(597,632)		
unamortized loss on refunding	<u>(4,064,302)</u>		
Total, presented net	278,691,737		
Less: amount due within one year	<u>(13,390,814)</u>		
Amount due after one year	<u>\$ 265,300,923</u>		

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

(4) Long-Term Debt (Continued)

Future maturities of principal and interest of revenue and refunding bonds, with interest rates ranging from 2.625% to 5.50% and maturing through 2046, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2013	2,480,000	5,383,235	7,863,235
	<u>11,300,000</u>	<u>27,774,532</u>	<u>39,074,532</u>
2014 - 2018	13,895,000	25,266,348	39,161,348
2019 - 2023	16,060,000	22,038,881	38,098,881
2024 - 2028	18,645,000	17,961,856	36,606,856
2029 - 2033	21,355,000	13,114,413	34,469,413
2034 - 2038	25,545,000	7,401,778	32,946,778
2039 - 2043	13,815,000	2,242,703	16,057,703
2044 - 2046	3,915,000	242,606	4,157,606
	<u>113,230,000</u>	<u>88,268,585</u>	<u>201,498,585</u>
Total revenue and refunding bonds	<u>\$ 124,530,000</u>	<u>\$ 116,043,117</u>	<u>\$ 240,573,117</u>
Add: unamortized premium	1,590,897		
Less: unamortized issue costs	(1,531,291)		
unamortized discount	(115,548)		
unamortized loss on refunding	<u>(2,089,295)</u>		
Total, presented net	122,384,763		
Less: amount due within one year	<u>(1,558,800)</u>		
Amount due after one year	<u>\$ 120,825,963</u>		

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, 2008, was \$7,480,103.

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, 2008, the Council had an accrued liability of \$92,198 for excess investment earnings on bond proceeds.

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

### (4) Long-Term Debt (Continued)

In prior years, certain general obligation bonds and revenue bonds were defeased by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Council's financial statements. At June 30, 2008, there were \$41,945,000 in defeased general obligation bonds and \$52,415,000 in defeased revenue bonds outstanding.

### (5) 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, 2008, totalled \$374,217. As of June 30, 2008, the Council was indebted to the Authority for \$103,916 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	\$ 374,217
Less: reimbursements for prior year expenses	(97,534)
Add: current year expenses incurred but not reimbursed to the Authority	<u>103,916</u>
Current year expenses reimbursed and due to the Authority	\$ 380,599
General and administrative expenses paid directly by Council	4,500
General and administrative expenses paid by PEIA transfer	1,568
Reimbursements from third parties	(45)
Accounts payable, June 30, 2007	(19,984)
Accounts payable, June 30, 2008	<u>29,898</u>
Total general and administrative expenses incurred by Council	<u>\$ 396,536</u>

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 2008. 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 Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

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

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, 2008, \$40 million was appropriated for and received by the Council.

During the year ended June 30, 2008, the Council contributed \$1,645,860 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, 2008, the Council contributed \$3,336,894 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.

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

### (6) Schedule of General and Administrative Expenditures

General and administrative expenditures for the year ended June 30, 2008, were as follows:

Salaries and benefits	\$ 184,207
Legal	101,676
Consulting and professional	41,603
Rentals	18,703
Travel	13,864
Office supplies	9,547
Computer services	7,598
Telecommunications	5,118
Trustee	4,500
Training	2,506
Insurance	2,087
Postage	2,052
Employee parking	1,320
Association dues	1,000
Miscellaneous	755
	<u>\$ 396,536</u>

### (7) Leases

The Council rents office space under an operating lease agreement which expired 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 \$11,977 under the lease during the year ended June 30, 2008. Following is a schedule of future minimum lease payments, which includes lease payments on certain office equipment:

<u>Year Ending June 30</u>	<u>Amount</u>
2009	\$ 4,580
2010	<u>1,145</u>
Future minimum lease payments	<u>\$ 5,725</u>

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

### (8) 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, 2008, \$149,781,151 of available fund balance was designated by the Council for loans and grants. Additionally, the Council has designated \$1,645,800 for contributions to one State agency 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 \$36,583,833 at June 30, 2008, and fund balance has been reserved to recognize these obligations. In addition, loans receivable, net of allowances of \$375,511,007 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 \$3,275,541 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.

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

The portion of accrued interest receivable, \$310,250, 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 long term, however, are reported in the Statement of Net Assets. Balances at June 30, 2008, were:

General obligation bonds payable	\$	278,691,737
Revenue and refunding bonds payable		122,384,763
Compensated absences		9,671
Accrued interest on bonds		3,072,658
Total adjustment	\$	<u>404,158,829</u>

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

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

“Total fund balances” of the Council’s governmental funds of \$672,291,580 differs from “net assets” of governmental activities of \$268,443,001 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.

(10) 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 \$14,625,000 during the year ended June 30, 2008, 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 \$4,606,621 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 \$338,134, discussed below. Offsetting that increase was the amortization of bonds payable premium of \$342,550, also discussed below.

The expense related to an increase of \$862 in the liability for compensated absences accrued during the year ended June 30, 2008, 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.

Bond issuance costs related to prior year revenue and refunding bond issues were reported as an expenditure in governmental funds and had the effect of reducing fund balance the years of the respective bond issues 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 and refunding bonds and the current year amortization of \$82,226 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.

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 \$342,550 is reflected as a reduction of interest expense on the Statement of Activities. Since the amortized

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

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

amount does not represent receipts of current financial resources, it is not reported as an other financing source in governmental funds.

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.

Prior year payments of call premiums as well as 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 prior years 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 \$338,134 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.

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.

(11) 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

# West Virginia Infrastructure and Jobs Development Council

## Notes to Financial Statements (Continued)

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(11) Risk Management (Continued)

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.

(12) 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 \$241,827,435 restricted net assets, of which \$116,521,350 is restricted by enabling legislation for loans and grants and \$125,306,085 is restricted by debt covenants for debt service on the revenue, refunding, and general obligation bonds.

**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, 2008

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	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Budget to</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>GAAP</u>	<u>Amounts</u>
			<u>Budgetary Basis</u>	<u>Differences</u>	<u>GAAP Basis</u>
Budgetary fund balance, July 1, 2007	\$ -	\$ -	\$ -	\$ -	\$ -
Resources (inflows)					
Excess lottery revenue	<u>40,000,000</u>	<u>40,000,000</u>	<u>40,000,000</u>	<u>-</u>	<u>40,000,000</u>
Amounts available for appropriation	40,000,000	40,000,000	40,000,000	-	40,000,000
Charges to appropriations (outflows)	<u>(40,000,000)</u>	<u>(40,000,000)</u>	<u>(40,000,000)</u>	<u>-</u>	<u>(40,000,000)</u>
Budgetary fund balance, June 30, 2008	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

# West Virginia Infrastructure and Jobs Development Council

## Note to Required Supplementary Information – Budgetary Reporting

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- (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, 2008, \$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  
GAAP REPORTING FORM - INVESTMENTS DISCLOSURE

**West Virginia Infrastructure and Jobs Development Council**

Audited Agency

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.

Investments with Board of Treasury Investments (BT) Per Opening Balance Report Investment Earnings not Posted to WVFIMS As of 6/30/08 Investments Outside BT:	Reported Amount Unrestricted	Reported Amount Restricted	Custodial Credit Risk			Fair Value	Credit Ratings			Interest Rate Risk - Segmented Time Distribution			Foreign Currency Risk				
			Category 1 (Based on reported amounts)	Category 2	Category 3		Reported Amount**	Standard & Poor's	Moody's	Fitch	Less than 1	1 - 5	6 - 10	More than 10	Currency Type	Maturity	Fair Value
Mutual Money Market Funds	12,752,631	165,703,672				178,456,303 (F)	178,456,303	AAA	Aaa	AAA							
Guaranteed Investment Contract	14,077,718	97,407,306				111,485,024 (F)	111,485,024	AA-	Aa3	AA-							
Guaranteed Investment Contract		5,798,222				5,798,222 (F)	5,798,222	AAA	Aaa	AAA			5,798,222				
<b>Total</b>	<b>26,830,349</b>	<b>269,095,513</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>295,925,962</b>	<b>295,925,962</b>				<b>0</b>	<b>0</b>	<b>5,798,222</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

\*\*\*\* 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).

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	\$ 178,682,616
Less: cash equivalents disclosed as investments	<u>(178,682,616)</u>
Carrying amount of deposits as disclosed on Form 7	<u><u>0</u></u>
Investments:	
Investments as reported on balance sheet	\$ 117,243,246
Add: cash equivalents disclosed as investments	<u>178,682,616</u>
Reported amount of investments as disclosed on Form 8	<u><u>\$ 295,925,862</u></u>

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, 2008.

WVFIMS Doc. ID	Agency Transferring From	WVFIMS FUND	Agency Transferring To	WVFIMS FUND	Amount
D001351442	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	\$ 29,139.96
D001351633	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	56,151.85
D001351181	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	6,918.22
D001350676	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	6,426.89
D001350354	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	328,387.73
D001349897	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	41,462.01
D001349528	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	63,707.79
D001354047	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	101,038.02
D001353617	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	62,941.05
D001353656	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	396,727.70
D001353304	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	56,230.04
D001353125	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	5,456.00
D001351763	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	560,769.47
D001352517	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	64,180.21
D001351916	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	14,932.01
D001355458	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	809,883.65
D001355451	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	45,521.61
D001354628	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	20,961.00
D001355266	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	60,086.76
D001354834	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	2,139.68
D001353936	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	12,729.77
D001354344	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	37,511.88
D001354386	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	10,132.80
D001354341	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	4,421.11
D001356845	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	87,958.92
D001356624	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	7,326,871.03
D001356612	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	9,924,983.38
D001355829	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	6,408.11
D001356431	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	3,152,165.44
D001356436	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	1,876,900.79
D001355831	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	187,535.14
D001356025	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	127,761.40
D001355067	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	3,108.36
D001377920	Department of Revenue	0470	WV Infrastructure and Jobs Development Council	3385	-1,481,549.78
			<b>Total</b>		<b>\$ 24,000,000.00</b>

\*Do not include (GT's, Reimbursements or Expense to Expense transactions

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

See Independent Auditors' Report.

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, 2008.

WFIMS Doc. ID	Agency Transferring From	WFIMS FUND	Agency Transferring To	WFIMS FUND	Amount
None	WV Infrastructure and Jobs Development Council	Trustee	WV Clean Water State Revolving Fund	3329	\$ 3,336,894.00
None	WV Infrastructure and Jobs Development Council	Trustee	WV Drinking Water Treatment Revolving Fund	3386	1,645,860.00
					\$ 4,982,754.00
E000734066	Department of Revenue/Lottery	7203/7205	WV Infrastructure Transfer Fund	3390	\$ 18,027,298.09
E000738694	Department of Revenue/Lottery	7203/7205	WV Infrastructure Transfer Fund	3390	18,529,789.28
E000743187	Department of Revenue/Lottery	7203/7205	WV Infrastructure Transfer Fund	3390	3,442,912.63
					\$ 40,000,000.00
E000737170	WV Infrastructure Transfer Fund	3390	WV Infrastructure Fund	3384	18,027,298.09
E000739100	WV Infrastructure Transfer Fund	3390	WV Infrastructure Fund	3384	18,529,789.28
E000744598	WV Infrastructure Transfer Fund	3390	WV Infrastructure Fund	3384	3,442,912.63
					\$ 40,000,000.00
E000717507	Department of Revenue/Lottery	7203/7205	WV Infrastructure Transfer Fund	3390	\$ 155,264.36
					\$ 155,264.36
E000718123	WV Infrastructure Transfer Fund	3390	Department of Revenue/Lottery	7203/7205	\$ 155,264.36
					\$ 155,264.36

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

Explain Transfers In/Out amounts greater than or equal to \$1,000,000.  
 West Virginia Clean Water State Revolving Fund and West Virginia Drinking Water Treatment Revolving Fund State Matches - \$4,982,754  
 Excess Lottery Revenue - \$40,000,000

Severance Tax - \$24,000,000

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

To the Board of Directors  
West Virginia 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, 2008, and have issued our report thereon dated October 13, 2008. 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.

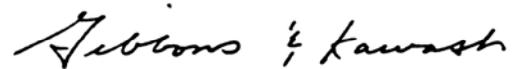
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

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*.

We noted certain matters that we reported to management of the Council in a separate letter dated October 13, 2008.

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

A handwritten signature in black ink, appearing to read "Gibson & Kawash". The signature is written in a cursive, flowing style.

October 13, 2008