WEST VIRGINIA
Water Development Authority

ANNUAL REPORT
FISCAL YEAR 2012

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WEST VIRGINIA
Water Development Authority

Earl Ray Tomblin
Governor

ANNUAL REPORT
FISCAL YEAR 2012

BOARD

Authority

Chris E. Jarrett
Executive Director

STATE OF WEST VIRGINIA
WATER DEVELOPMENT AUTHORITY

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STATE OF WEST VIRGINIA
WATER DEVELOPMENT AUTHORITY

MISSION

Provide communities in the State of West Virginia (the "State") financial assistance for development and continued maintenance of water, wastewater, and economic infrastructure that will improve drinking water quality, protect public health, protect the streams of the State and provide infrastructure to encourage economic growth.

The West Virginia Water Development Authority (the "WDA") is the agency that coordinates the financing and closing for all infrastructure and economic development loans and provides financing for the design, construction, improvement and acquisition of water and wastewater facilities to Local Governmental Agencies (the "LGA's") (municipalities, public service districts and other political subdivisions). The WDA is also the administrative oversight agency for servicing loans and grants made from its revenue bond programs, the West Virginia Infrastructure Fund, the Clean Water State Revolving Fund and the Drinking Water Treatment Revolving Fund.

ESTABLISHMENT

Established in 1972 by the West Virginia Legislature, the WDA commenced services in 1974 and is authorized to provide financial assistance to Local Governmental Agencies to help them meet the requirements of State and Federal water pollution control and safe drinking water laws, thereby protecting the health of the State's citizens, improving water quality, and protecting the environment while constructing and upgrading infrastructure to attract economic development.

The WDA operates under the supervision of the West Virginia Water Development Board (the "Board"). The Board is composed of seven members, including three ex officio members: the Governor or designee, the Secretary of the Department of Environmental Protection or designee, and the Commissioner of the Bureau for Public Health or designee. The remaining four members of the Board are appointed by the Governor, with the advice and consent of the State Senate, for terms of six years. Appointed Board members may be reappointed to serve additional terms. No more than two of the appointed Board members shall at any one time belong to the same political party. The Governor or designee serves as chair. The Board annually elects one of its appointed members as vice chair and appoints a secretary-treasurer, who need not be a member of the Board.

The WDA has a staff of four and utilizes professional services to supplement its staff as needed. The WDA is self-supporting and does not receive State appropriations for operating expenses or bond programs.

GOALS

- Assist communities in obtaining loan and grant funds to help meet an estimated $3.5 billion in needs for adequate publicly owned water and wastewater systems, which improve health conditions as well as achieve and maintain compliance with State and federal water quality laws.

- Administer loans and grants through the execution of payments to LGA's, monitoring repayments per loan agreements, and reconciling balances with the Municipal Bond Commission in order to to protect capital investments and the WDA's and State's credit ratings for its revenue bond programs.

- Secure the maximum federal funding available each year under the CWSRF for wastewater projects and the DWTRF for drinking water projects by providing the required 20% match.

OBJECTIVES

- Maximize and leverage the use of all available State, federal and local funding sources by participating in the West Virginia Infrastructure and Jobs Development Council's technical and financial review process on all proposed water and wastewater projects.

- Serve as a voting member on the West Virginia Infrastructure and Jobs Development Council.

- Assist in the commitment of available Clean Water State Revolving Fund, Drinking Water Treatment Revolving Fund, West Virginia Infrastructure Fund and WDA dollars to cost-effective and environmentally sound projects as expeditiously as possible.

- Ensure the availability of recycled dollars to meet future needs by assisting struggling or defaulting communities to resolve underlying problems indicated by repayment activity on loans.

- Verify compliance with loan agreements by conducting financial audit reviews on selected water and wastewater loan recipients.

- Obtain funds for the WDA and West Virginia Infrastructure Fund through public bond offerings to finance construction/improvement of water and wastewater systems.

- Provide accountability for funds managed through preparation of various reports, including financial statements that are audited annually.

- Provide Secondary Market Disclosure and Reporting and other information to rating agencies and bond insurers.

OBJECTIVES (continued)

- Maximize investment earnings through competitive bid process and investment contracts.
- Educate the public and potential funding recipients about the availability of funding for water and wastewater systems and the value of improvements to those systems by participating in annual conferences and trade conventions.

RESPONSIBILITIES

- Managing the WDA's various loan programs and servicing its loans.
- Coordinating infrastructure-related revenue bond issuance activity.
- Serving as administrative agency for the Infrastructure and Jobs Development Council ("IJDC").
- Participating as a voting member of the IJDC.
- Serving as fiduciary of the IJDC's West Virginia Infrastructure Fund ("WVIF").
- Serving as administrative agency for the Department of Environmental Protection's Clean Water State Revolving Fund ("CWSRF").
- Serving as financial manager for the Bureau for Public Health's Drinking Water Treatment Revolving Fund ("DWTRF").
- Closing and servicing all loans funded by the WVIF, CWSRF, DWTRF and WDA.
- Maintaining financial records, preparing and analyzing financial statements and preparing underlying work papers for three programs that are audited annually by certified public accounting firms.
- Reviewing, approving and processing debt service semi-annually on general obligation and revenue bonds.
- Providing Secondary Market Disclosure and Reporting and other information to rating agencies and bond insurers.
- Communicating with the Water Development Board and other State agencies.
- Working with Local Governmental Agencies on project development and funding solutions.

RESPONSIBILITIES (Continued)

- Providing loans from other available funds for projects that are not eligible under the revenue bond programs.

- Providing Bridge Loans from other available funds for projects until revenue bond proceeds are available for permanent financing.

The WDA serves as administrative agency for the Department of Environmental Protection's CWSRF by:

- Administering the local bond purchase process.
- Preparing loan agreements.
- Closing loans with Local Governmental Agencies.
- Maintaining bonds, bond transcripts and project-related files for annual United States Environmental Protection Agency ("EPA") program audits.

The WDA serves as financial manager for the Bureau for Public Health's DWTRF by:

- Administering the local bond purchase process.
- Preparing loan agreements.
- Closing loans with Local Governmental Agencies.
- Disbursing payments to projects.
- Providing ongoing servicing functions for all loans outstanding as of June 30, 2012.
- Maintaining financial records, preparing and analyzing financial statements and preparing underlying work papers for the annual financial and compliance audits by a certified public accounting firm.
- Maintaining bonds, bond transcripts and project-related files for annual EPA program audits.
- Performing desk reviews of subrecipient audits.

The WDA serves as fiduciary for the Infrastructure and Jobs Development Council's WVIF by:

- Administering the local bond purchase and grant process.
- Disseminating loan and grant agreements.
- Closing loans and grants with Local Governmental Agencies.
- Disbursing payments to projects.
- Providing ongoing servicing functions all loans outstanding as of June 30, 2012.
- Maintaining financial records, preparing and analyzing financial statements and preparing underlying work papers for the annual financial statement audit by a certified public accounting firm.
- Maintaining bonds, notes, bond transcripts and project-related files.

RESPONSIBILITIES (Continued)

- Coordinating infrastructure-related revenue bond issuance activity.
- Reviewing, approving and processing debt service semi-annually on general obligation and revenue bonds.
- Providing Secondary Market Disclosure and Reporting and other information to rating agencies and bond insurers.
- Issuing bonds on behalf of the IJDC.

ACCOMPLISHMENTS

- **Celebrated 38 Years of Service 1974 - 2012.**

- Closed 53 loans and grants totaling $135 million this year to communities for water, wastewater and economic development projects.

- Provided servicing for over 773 loans (local bonds of communities) outstanding as of June 30, 2012, totaling $935 million.

- Acted in a fiduciary capacity for funding of loans and grants in excess of $935 million and continued to meet the challenge of enhancing and creating adequate infrastructure for the citizens of West Virginia.

PROGRAMS

The WDA administers a variety of programs to provide long-term, short-term and private-activity financing at favorable interest rates for design, construction, improvement and acquisition of water and wastewater systems. Generally, WDA revenue bond programs are funded with proceeds from water development bonds issued by the WDA. Moneys in the various WDA programs are loaned to municipalities, public service districts and other political subdivisions through the purchase of local revenue bonds and/or notes issued by these Local Governmental Agencies. The loans are repaid from the revenues of the systems or other permanent financing.

Using other funds available to it, the WDA makes low-interest loans to cover the design and related costs of wastewater and water projects, which assist communities in getting projects ready for construction with short-term affordable rates that are taken out with permanent financing when the project goes to construction.

DEBT ADMINISTRATION

As a financing entity, the purpose of the WDA is debt issuance and administration, including loan servicing. Servicing is vitally important because loan repayments are used to make debt service payments on publicly marketed bonds issued by the WDA or revolved for future projects. The viability and success of the programs administered by the WDA are dependent on the servicing aspect provided by the WDA. If servicing is not managed, bond reserve funds would potentially be needed to meet debt service payments with subsequent appeal to the Governor to replenish the reserve funds deficiency through the budget process.

By statute, the maximum amount of bonds the WDA is authorized to have outstanding includes debt issued for the WDA and by the WDA on behalf of the West Virginia Infrastructure and Jobs Development Council. The amount of bonds or notes outstanding may not exceed $500 million at any time; provided that before the WDA issues bonds or notes in excess of $440 million, the State Legislature must pass a resolution authorizing this action. Senate Bill 245, enacted by the State Legislature on March 12, 2011, provides an exception to the $500 million ceiling for the limited purpose of providing grants for capital improvements for designated projects in the Chesapeake Bay and Greenbrier Watershed areas. These bonds or notes in the aggregate amount are not to exceed $180 million and would be repaid from additional special appropriated lottery revenue. The WDA's long-term planning is accomplished within the confines of its authorized borrowing limit. The WDA continues to monitor its long-term outstanding debt for prepayment and refunding opportunities for debt service savings. While the redemption of bonds is economically prudent because of the resulting debt service savings, any reduction in the liability for long-term debt also enables the WDA to manage debt capacity for future needs as well as for new programs. At year end, the WDA had $343 million in revenue and refunding bonds outstanding, including $116 million in Infrastructure revenue Bonds.

CLEAN WATER STATE REVOLVING FUND

In 1987, the Congress of the United States replaced the construction grants program with a State-operated revolving loan fund to provide no-interest or low-interest loans to Local Governmental Agencies to assist in financing wastewater projects. Under this program, grants that must be matched by State funds are awarded by the United States Environmental Protection Agency ("EPA") to the Department of Environmental Protection ("DEP"). The federal grants and State matching grants are deposited in a perpetual revolving fund designated as the Clean Water State Revolving Fund ("CWSRF") and remain in perpetuity by revolving the principal repayments and interest earned on the loans to make more loans.

As of June 30, 2012, DEP had been awarded twenty-three capitalization grant awards for the CWSRF from the EPA totaling $531.6 million. The State is required to provide an additional twenty percent of the federal award as matching funds in order to qualify for funding. The State has contributed to the CWSRF $94.1 million in matching funds, of which $75.6 million has been contributed by the IJDC.

The WDA coordinates the initial Local Governmental Agency bond financing process and performs the ongoing loan servicing functions for the CWSRF.

DRINKING WATER TREATMENT REVOLVING FUND

The Drinking Water Treatment Revolving Fund ("DWTRF") was established pursuant to the Safe Drinking Water Act and by the Legislature under Chapter 16, Article 13C of the West Virginia Code. The purpose of the act was to establish and implement a State-operated perpetual revolving loan fund to provide no-interest or low-interest loans to Local Governmental Agencies and other eligible water providers to assist in financing drinking water infrastructure projects, including but not limited to, treatment, distribution, transmission, storage, and extensions; and remain in perpetuity by revolving the principal repayments and interest earned from the loans to make more loans. The DWTRF's loan programs are designed to provide financial and compliance assistance to eligible water providers in the State. Such loan programs provide long-term financing to cover all or a portion of the cost of qualifying projects.

As of June 30, 2012, the Bureau for Public Health ("BPH") had been awarded seventeen capitalization grant awards from the EPA totaling $150.6 million, one of those grant awards being a Stimulus Grant, of which $115.3 million was allocated to the DWTRF and $35.3 million for set-aside programs administered by the BPH. The State is required to provide an additional twenty percent of the federal award as matching funds in order to qualify for funding. On behalf of the State, the IJDC has contributed $26.2 million in matching funds to the DWTRF.

The WDA coordinates the initial Local Governmental Agency bond financing process and performs the ongoing loan servicing functions for the DWTRF.

WEST VIRGINIA INFRASTRUCTURE FUND

The Infrastructure and Jobs Development Council ("IJDC") was created as a governmental entity of the State under the provisions of Chapter 31, Article 15A, Section 3 of the West Virginia Code, as amended, which also established the West Virginia Infrastructure Fund ("WVIF"). The IJDC has statutory responsibility to review the preliminary applications for water and wastewater facilities, combination projects or economic development projects seeking State funding to first determine technical feasibility. If the project is determined to be an appropriate investment of State funds, and the IJDC has determined the project is eligible for funding assistance from one or more State infrastructure agencies, the IJDC will make a written recommendation for project funding. Specifically, the IJDC will recommend the kind of funding (loan and/or grant) and the amount and source of funding which the project sponsor should pursue. Otherwise, the IJDC will make a written recommendation that the project sponsor not seek funding from any State infrastructure agency.

The IJDC 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, WDA, Bureau for Public Health, and Public Service Commission and four members representing the general public.

Sources of funding for the IJDC, which funding must be allocated 80 percent to water and wastewater projects and 20 percent to economic development projects, include appropriations, proceeds from general obligation and revenue bonds, video lottery proceeds, investment earnings and unrestricted loan repayments.

The WDA is the administrative agency for the IJDC and is fiduciary of the WVIF. The WDA provides administrative, financial and legal expertise to the IJDC and ongoing servicing on loans made from the WVIF. The WDA employs six additional individuals for the benefit of the IJDC. The WDA issues infrastructure revenue and refunding bonds, at the written request of the IJDC, to provide loans and other forms of financial assistance for infrastructure projects. Of the $182.9 million in infrastructure revenue and refunding bonds issued, $116 million are outstanding.

For additional information on the various programs the WDA administers, visit the WDA's website at www.wvwda.org and click on links to access the CWSRF, DWTRF and WVIF.

WEST VIRGINIA

Water Development Authority

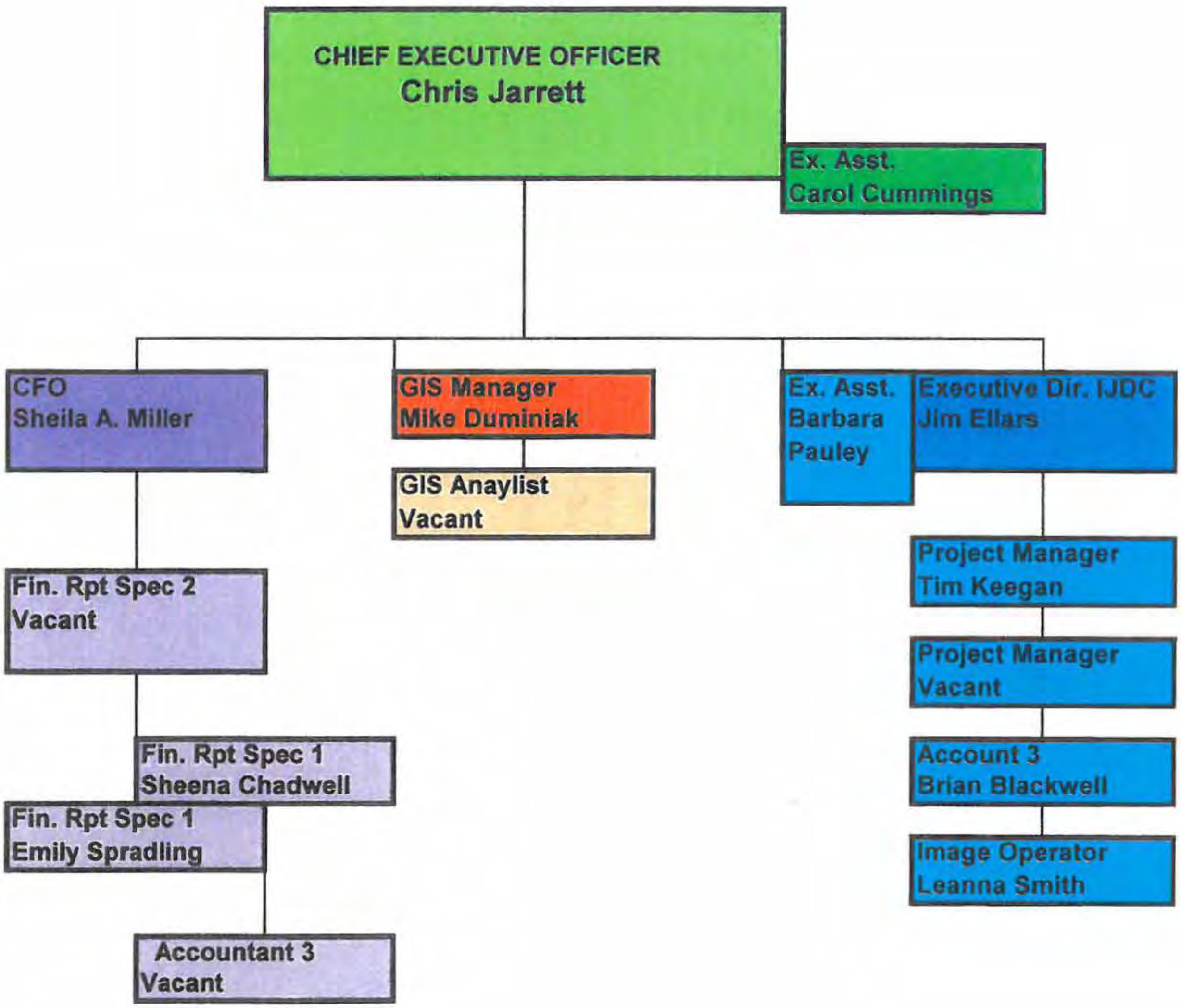
Celebrating 38 Years of Service 1974 - 2012

APPENDIX A

ORGANIZATIONAL CHART

WATER DEVELOPMENT AUTHORITY

ORGANIZATIONAL CHART



Current vacancies are :

WEST VIRGINIA

Water Development Authority

Celebrating 38 Years of Service ***1974 - 2012***

APPENDIX B

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

Audited Financial Statements

West Virginia Water Development Authority

Year Ended June 30, 2012

GIBBONS & KAWASH
Certified Public Accountants

Audited Financial Statements

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

Year Ended June 30, 2012

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GIBBONS & KAWASH
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of net assets of the West Virginia Water Development Authority, (the Authority), a component unit of the State of West Virginia, as of June 30, 2012, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2012, and the respective changes in financial position, and cash flows thereof 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 12 2012, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Gibbons & Kawash, A.C.

October 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

INTRODUCTION

The West Virginia Water Development Authority (the "Authority") was established in 1972 by the West Virginia Legislature as a governmental instrumentality of the State of West Virginia (the "State") a body corporate and is considered a component unit of the State for financial reporting purposes. The Authority commenced operations in 1974 and is authorized to serve as a revenue bond bank that provides financial assistance to municipalities, public service districts and other political subdivisions to meet the requirements of State and federal water pollution control and safe drinking water laws, thereby helping to protect the health of the State's citizens, improving drinking water quality, upgrading infrastructure to attract economic development and protecting the environment. The Authority operates under the supervision of the West Virginia Water Development Board, which is comprised of seven members. The Authority, also serves as fiduciary agent for two other programs which are reported separately. The Authority is self-supporting and does not receive State appropriations for operating expenses or bond programs. The Authority hired two employees during fiscal year 2012; a Chief Financial Officer and a GIS Manager. The Authority plans to hire four additional employees in the next fiscal year. The Authority is currently constructing a new office building, which is scheduled for completion in the second quarter of fiscal year 2013.

The Authority maintains a variety of programs to provide long-term, short-term and private-activity financing at favorable interest rates for design, construction and/or acquisition of wastewater and/or water systems. Generally, the Authority's programs are funded with proceeds from water development bonds issued by the Authority. Moneys in the various programs are loaned to municipalities, public service districts and other political subdivisions through the purchase of revenue bonds or notes issued by these local governmental agencies. The loans are repaid from the revenues of the wastewater and/or water systems or other permanent financing. Because the Authority's bonds are considered a moral obligation of the State, the aggregate principal amount of bonds and/or notes issued by the Authority may not exceed $500 million outstanding at any time; provided that before the Authority issues bonds or notes in excess of $440 million, the Legislature must pass a resolution authorizing this action.

The Authority's long-term planning is accomplished within the confines of its authorized borrowing limit. Additionally, the Authority has used and will use other available resources to fund loans and issue bonds when a significant identifiable need arises.

This discussion and analysis of the Authority's financial activities for the year ended June 30, 2012, is designed to assist the reader in focusing on significant financial issues and activities of the Authority and to identify significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements, which begin on page 8.

USING THIS REPORT

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

FINANCIAL HIGHLIGHTS

- Total assets of the Authority decreased $5.6 million or 2%. There was a decrease in total liabilities of $5.8 million or 3%. Total net assets increased $206 thousand or less than 1%.

- Total revenues decreased $735 thousand. This was primarily due to a decrease in charges for services of $559 thousand as well as a decrease in interest and investment revenue of $177 thousand.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued
(Unaudited)

FINANCIAL HIGHLIGHTS (Continued)

- Total expenses increased $113 thousand. This was primarily the combined result of a $277 thousand decrease in interest expense and a $391 thousand increase in operating expenses.

THE AUTHORITY AS A WHOLE

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

Table 1
Net Assets

	2012	2011	Increase (Decrease)
Assets:			
Current assets	$ 22,933,735	$ 23,391,226	$ (457,491)
Non current assets	254,583,909	259,739,415	(5,155,506)
Total assets	$ 277,517,644	$ 283,130,641	$ (5,612,997)
Liabilities:			
Current liabilities	$ 9,023,078	$ 8,629,412	$ (393,666)
Long-term debt outstanding	207,282,259	213,495,372	(6,213,113)
Total liabilities	$ 216,305,337	$ 222,124,784	$ (5,819,447)
Net assets:			
Invested in capital assets	$ 6,431,364	$ 2,585,614	$ 3,845,750
Restricted	27,596,813	30,873,588	(3,276,775)
Unrestricted	27,184,130	27,546,655	(362,525)
Total net assets	$ 61,212,307	$ 61,005,857	$ 206,450

Total assets decreased $5.6 million or 2%. Decreases to assets were the result of the use of assets to fund interest expense of $11.9 million on bonds payable, scheduled principal payments on bonds payable of $6.9 million and general and administrative expenses of $2.2 million. The combined effect was a decrease to assets of $21 million which was substantially offset by operating revenues including revenues from interest on revenue bonds receivable reflected in the financial statements as "charges for services" of $14.7 million and interest on investments of $258 thousand. During the year, the Authority disbursed $539 thousand in loans from unrestricted resources available to the authority, of which $228 thousand was related to two wastewater/water projects that were closed in fiscal year 2012.

Total liabilities decreased approximately $5.8 million. The majority of the decrease was in revenue bonds payable, which are presented on the balance sheet net of unamortized premiums, discounts, issue costs and deferred losses on advance refundings.

Unrestricted net assets decreased $362 thousand, primarily explained by an increase in operating expenses of $391 thousand.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued
(Unaudited)

THE AUTHORITY AS A WHOLE (Continued)

Restricted net assets decreased $3.2 million as a result of increases in the amount of loan disbursements from restricted net assets, combined with cash collections on loan repayments in excess of cash disbursements for debt service.

Table 2
Changes in Net Assets

	2012	2011	Increase (Decrease)
Revenues:			
Operating revenues:			
Charges for services	$ 14,688,376	$ 15,247,137	$ (558,761)
Other	26,843	26,600	243
Total operating revenues	14,715,219	15,273,737	(558,518)
Nonoperating revenues:			
Interest and investment revenue, net of arbitrage	258,012	434,698	(176,686)
Total revenues	14,973,231	15,708,435	(735,204)
Expenses:			
Operating expenses	2,891,316	2,500,273	391,043
Nonoperating expenses:			
Interest expense	11,875,465	12,152,850	(277,385)
Total expenses	14,766,781	14,653,123	113,658
Change in net assets	206,450	1,055,312	(848,862)
Beginning net assets	61,005,857	59,950,545	1,055,312
Ending net assets	$ 61,212,307	$ 61,005,857	$ 206,450

Charges for services decreased $559 thousand. This is primarily due to only two loans closing during the current year totaling $680 thousand and lower interest rates to loans already in the portfolio.

Interest and investment revenue, net of arbitrage decreased $177 thousand, due to low yielding short term interest rates, available to the Authority from period to period on comparable asset balances.

Operating expenses increased $391 thousand from the prior year. This is primarily the result of an increase in depreciation expense related to the automated financial, loan and bond management information system that was placed in service the first quarter of fiscal year 2012. This is the first automated system utilized by the Authority.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued
(Unaudited)

DEBT ADMINISTRATION

As a financing entity, the business of the Authority is debt issuance and administration, including servicing. By statute, the maximum amount of bonds the Authority is authorized to have outstanding includes debt issued for the Authority and by the Authority on behalf of the West Virginia Infrastructure and Jobs Development Council. While the redemption of bonds is economically prudent because of the resulting debt service savings, any reduction in the liability for long-term debt enables the Authority to manage debt capacity for future needs as well as for new programs. The Authority, therefore, continues to monitor its long-term outstanding debt for prepayment and refunding opportunities for debt service savings. At year end, the Authority had $227 million in revenue and refunding bonds outstanding versus $234 million in the prior year, a decrease of 3%.

As of June 30, 2012, Assured Guaranty, the bond insurer for the West Virginia Water Development Authority, Water Development Revenue Bonds (Loan Program IV) 2005 Series A, had a Standard & Poor's rating of AA-.

As of June 30, 2012, Ambac Financial Group, the bond insurer for the West Virginia Water Development Authority, Water Development Revenue Refunding Bonds (Loan Program I) 2002 Series A and 2003 Series A-I; Water Development Revenue Refunding Bonds (Loan Program II) 2003 Series A-II, 2003 Series B, 2003 Series C and 2003 Series D; Water Development Revenue Bonds (Loan Program III) 2000 Series A and 2000 Series B; and Water Development Revenue Bonds (Loan Program IV) 2005 Series B-IV had no rating by Standard & Poor's.

As of June 30, 2012, Financial Guaranty Insurance Company, the bond insurer for the West Virginia Water Development Authority, Water Development Revenue Refunding Bonds (Loan Program II) 2005 Series A-II and B-II and 2006 Series A-II had no rating by Standard & Poor's.

The Authority's outstanding bonds were originally issued with a rating of AAA by Standard & Poor's on the understanding that the standard insurance policies purchased by the Authority guaranteed the timely payment of principal 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 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 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, as well as its underwriters and bond counsel, continue to monitor the status of its bond insurers and is considering options for the issuance of future bonds without an insurance policy.

ECONOMIC FACTORS THAT MAY AFFECT THE AUTHORITY

At its July 26, 2012, meeting, the Board authorized the Authority to refund six bond issues in November 2012, to obtain debt service savings. This refund will include two bond issues from Loan Program I, two from Loan Program II, and two from Loan Program III. The proceeds of the 2012 Series A-I Bonds and 2012 Series B-I Bonds (Loan Program I) will be used to refund the Authority's outstanding 2002 Series A Bonds, in the principal amount of $4,590,000 and the outstanding 2003 A-I Bonds and 2012 Series B-II Bonds (Loan Program II) will be used to refund that Authority's outstanding 2003 Series A Bonds in the principal amount of

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

ECONOMIC FACTORS THAT MAY AFFECT THE AUTHORITY (Continued)

$6,290,000 and to advance refund the outstanding 2003 Series C Bonds, in the principal amount of $14,500,000. The proceeds for the 2012 Series A-III and 2012 Series B-III (Loan Program III) will be used to refund the Authority's outstanding 2000 Series A Bonds, in the principal amount of $16,070,000 and the outstanding 2000 Series B Bonds, in the principal amount of $9,660,000.

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

CONTACTING THE AUTHORITY'S MANAGEMENT

This financial report is designed to provide a general overview of the Authority's finances and to show the Authority's accountability for the money it receives as well as its ability to pay debt service. If you have questions about this report or need additional information, contact the Executive Director or Chief Financial Officer, West Virginia Water Development Authority, 1009 Bullitt Street, Charleston, West Virginia 25301, call 304-414-6500; or visit the Authority's website (www.wvwda.org).

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2012

ASSETS		
Current assets:		
Cash and cash equivalents	$	11,368,632
Receivables:		
Revenue bonds, net of unamortized discount of $49,346		5,766,194
Supplemental revenue bonds		579,074
Interest		3,450,761
Administrative fees		1,956
Due from other agencies		235,097
Total unrestricted current assets		21,401,714
Restricted current assets:		
Investments		1,532,021
Total current assets		22,933,735
Noncurrent assets:		
Receivables:		
Revenue bonds		12,605,494
Asset held on behalf of others		1,000,000
Investments		1,200,000
Capital assets, net		6,431,364
Total unrestricted noncurrent assets		21,236,858
Restricted assets:		
Cash and cash equivalents		16,081,865
Receivables, net:		
Revenue bonds, net of unamortized discount of $1,126,393		209,605,092
Supplemental revenue bonds		7,660,094
Total restricted noncurrent assets		233,347,051
Total assets	$	277,517,644

LIABILITIES	
Current liabilities:	
Accounts payable	$ 229,999
Current portion of revenue bonds payable, net of unamortized premium of $144,197, discounts and issue costs of $185,686 and deferred losses on refundings of $740,935	6,402,575
Accrued interest payable	2,390,504
Total current liabilities	9,023,078
Noncurrent liabilities:	
Accrued employee benefits	256,409
Asset held on behalf of others	1,000,000
Liabilities payable from restricted assets:	
Noncurrent portion of revenue bonds payable, net of unamortized premium of $2,920,315, discounts and issue costs of $3,869,988 and deferred losses on refundings of $12,849,480	206,025,850
Total noncurrent liabilities	207,282,259
Total liabilities	216,305,337
NET ASSETS	
Restricted	27,596,813
Unrestricted	27,184,130
Invested in capital assets	6,431,364
Total net assets	$ 61,212,307

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

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2012

Operating revenues:	
Charges for services	$ 14,688,376
Miscellaneous	26,843
Total operating revenues	14,715,219
Operating expenses:	
Depreciation and amortization	725,314
General and administrative	2,166,002
Total operating expenses	2,891,316
Operating income	11,823,903
Nonoperating revenues (expenses):	
Interest and investment revenue	258,012
Interest expense	(11,875,465)
Total nonoperating expenses	(11,617,453)
Change in net assets	206,450
Total net assets, beginning of year	61,005,857
Total net assets, end of year	$ 61,212,307

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

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012

Cash flows from operating activities	
Receipts of principal on bonds receivable	$ 7,330,120
Receipts of interest on bonds receivable	14,817,154
Receipts of administrative fees on bonds receivable	26,738
Receipts of reimbursements from other agencies	1,175,052
Disbursements from issuance of bonds receivable	(539,156)
Disbursements of general and administrative expense	(1,444,490)
Disbursements on behalf of employees	(302,795)
Disbursements on behalf of other agencies	(921,523)
Net cash provided by operating activities	20,141,100
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(4,385,378)
Net cash used in capital and related financing activities	(4,385,378)
Cash flows from noncapital financing activities:	
Principal paid on revenue and refunding bonds	(6,930,000)
Interest paid on revenue and refunding bonds	(11,334,241)
Net cash used in noncapital financing activities	(18,264,241)
Cash flows from investing activities:	
Investment earnings	222,937
Net cash provided by investing activities	222,937
Net decrease in cash and cash equivalents	(2,285,582)
Cash and cash equivalents, beginning of year	29,736,079
Cash and cash equivalents, end of year	$ 27,450,497

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

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 11,823,903
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	539,628
Amortization expense	185,686
Changes in assets and liabilities:	
Due from other agencies	253,527
Supplemental revenue bonds receivable	575,995
Revenue bonds receivable	6,214,970
Accrued interest receivable	128,779
Adminstrative fees receivable	(105)
Accounts payable	194,180
Accrued employee benefits	224,537
Net cash provided by operating activities	$ 20,141,100

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

1 - REPORTING ENTITY

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

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

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

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

2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Authority is accounted for as a proprietary fund special purpose government engaged in business type activities. In accordance with GAAP, the financial statements are prepared on the accrual basis of accounting, using the flow of economic resources measurement focus. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

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

Cash Equivalents

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

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Uncollectible Loans and Service Charges

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

Investments

Investments are carried at fair market value which is based upon quoted market prices. Gains and losses are reported as a component of investment income.

Restricted Assets

Proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by bond covenants. When both restricted and unrestricted resources are available for use, it is generally the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Capital Assets

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method over an estimated economic useful life. The table below details the capital asset categories and related economic useful lives for assets in excess of $1,000 with useful lives in excess of 1 year.

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

Accrued Employee Benefits

In accordance with State policy, the Authority permits employees to accumulate earned but unused vacation and sick pay benefits. A liability for vacation pay is accrued when earned. To the extent that accumulated sick leave is expected to be converted to benefits on retirement, an estimated liability is accrued through the Authority's participation in the State's multiple employer cost-sharing other post employment benefit plan that represents billed and unpaid charges from that plan in accordance with GASB Statement No. 45.

Bond Discounts and Issuance Costs

Bond discounts and issuance costs are amortized using the straight-line method over the varying terms of the bonds issued. The straight-line method is not in accordance with GAAP, but the difference in amortization using the straight-line method, versus the effective interest method which is in accordance with GAAP, is not material to the financial statements as a whole.

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Arbitrage Rebate Payable

The United States Internal Revenue Code of 1986, as amended (the "Code"), prescribes restrictions applicable to the Authority as issuer of Water Development Revenue and Refunding Bonds. Among those include restrictions on earnings on the bond proceeds. The Code requires payment to the federal government of investment earnings on certain bond proceeds in excess of the amount that would have been earned if the proceeds were invested at a rate equal to the yield on the bonds. As of June 30, 2012, the Authority is not liable to the federal government as a result of arbitrage.

3 - DEPOSIT AND INVESTMENT RISK DISCLOSURES

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

Interest Rate Risk

As of June 30, 2012, the Authority had the following investments and maturities:

		Investment Maturities (in Years)			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
Repurchase Agreements	$ 1,532,021	$ -	$ 1,532,021	$ -	$ -
U.S. Treasury	1,200,000	-	-	1,200,000	-
Money Markets	27,245,326	27,245,326	-	-	-
	$29,977,347	$27,245,326	$ 1,532,021	$ 1,200,000	$ -

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

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

3 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)

Concentration of Credit Risk

As of June 30, 2012, the Authority had investment balances with the following issuers which are greater than or equal to 5 percent of the investment balance:

Type	Issuer	Percentage of Investments
Money Markets	Federated Prime Cash Obligations	91%

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

	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

The following table provides information on the credit ratings of the Authority's short-term investments as of June 30, 2012:

3 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)

Credit Risk (Continued)

Security Type	Fitch	Moody's	Standard & Poors	Fair Value
Money Markets	AAAmmf	Aaa-mf	AAAm	$ 27,245,326

Additionally, at June 30, 2012, the Authority's investments in repurchase agreements, includes underlying securities of $908,844 in federal agency obligations backed by the full faith and credit of the United States and $861,371 in mortgage-backed securities guaranteed by different federal agencies and which hold an implied AA+ rating due to the guaranty of payment by the respective federal agency.

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

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

Custodial Credit Risk

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

Repurchase agreements are collateralized at 100% if the underlying security is cash and between 103% and 125% for other types of securities backed by the full faith and credit of the United States Government. The underlying securities of the Authority's $1,532,021 in repurchase agreements are held by either a third-party custodian or by the Authority's trustee, in the name of the Trustee on behalf of the Authority.

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

3 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)

Custodial Credit Risk (Continued)

exceed the outstanding repurchase agreement by the margin specified in the respective repurchase agreement. As of June 30, 2012, the Authority held no repurchase agreements that were not fully collateralized.

Cash consisted of the following at June 30, 2012:

Operating cash on hand	$ 100
Cash on deposit with State Treasurer	205,071
Total	$ 205,171

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

A reconciliation of the amounts disclosed as cash and investments included in this Note to cash and cash equivalents, restricted cash and cash equivalents, and investments in the Statement of Net Assets as of June 30, 2012, is as follows:

Deposits:	
Cash and cash equivalents as reported on the Statement of Net Assets	$ 11,368,632
Add: restricted cash and cash equivalents	16,081,865
Less: cash equivalents and restricted cash equivalents disclosed as investments	(27,245,326)
Total cash as disclosed in this Note	$ 205,171
Investments:	
Investments as reported on the Statement of Net Assets	$ 1,200,000
Add: restricted investments	1,532,021
Add: cash equivalents and restricted cash equivalents disclosed as investments	27,245,326
Total investments as disclosed in this Note	$ 29,977,347

4 - DUE FROM OTHER AGENCIES

Certain agencies of the State were indebted to the Authority at June 30, 2012, in connection with services performed by the Authority on behalf of the agencies. Amounts due the Authority at June 30, 2012, are as follows:

	Due From
West Virginia Infrastructure and Jobs Development Council, Net	$ 196,247
Department of Environmental Protection Clean Water State Revolving Fund	19,248
Bureau for Public Health Drinking Water Treatment Revolving Fund	19,602
	$ 235,097

5 - ALLOWANCE FOR UNCOLLECTIBLE LOANS AND SERVICE CHARGES

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

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

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

The Authority established guidelines to set up an allowance for estimated uncollectible amounts to be applied to loans receivable in the Revolving Loan Fund program as of June 30, 1981, and thereafter. The establishment of the allowance for financial reporting purposes does not affect the loan agreements that exist between the Authority and the various entities. The Revolving Loan Fund program balance at June 30, 2012, is comprised of the following:

Loans receivable	$ 379,258
Service charges receivable	3,670
Allowance for uncollectible	(382,928)
	$ -

6 - REVENUE BONDS RECEIVABLE

As of June 30, 2012, the face value of revenue bonds of municipalities, public service districts and other political subdivisions purchased with proceeds from Water Development Revenue Bonds was $216,190,936. Management's intentions are to hold such bonds until maturity; therefore, management believes the face amount of the bonds is fully collectible.

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

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)

7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets, not being depreciated:				
Land	$ 617,273	$ -	$ -	$ 617,273
Construction in progress	-	2,383,995	-	2,383,995
Total capital assets, not being depreciated:	617,273	2,383,995	-	3,001,268
Capital assets, being depreciated:				
Furniture and equipment	1,507,236	2,004,444	-	3,511,680
Building	963,493	-	-	963,493
Building improvements	90,287	-	-	90,287
Intangible assets (software)	26,529	-	(26,529)	-
Total capital assets, being depreciated	2,587,545	2,004,444	(26,529)	4,565,460
Less accumulated depreciation for:				
Furniture and equipment	241,535	508,466	-	750,001
Building	335,212	24,089	-	359,301
Building improvements	18,927	7,135	-	26,062
Total accumulated depreciation	595,674	539,690	-	1,135,364
Less accumulated amortization for:				
Intangible assets (software)	23,530	2,999	(26,529)	-
Total accumulated amortization	23,530	2,999	(26,529)	-
Total capital assets, net	$ 2,585,614	$ 3,845,750	$ -	$ 6,431,364

8 - REVENUE BONDS PAYABLE

The following is a summary of the Authority's bond transactions for the year ended June 30, 2012:

Revenue bonds payable at June 30, 2011	$ 233,940,000
Bonds retired	(6,930,000)
Revenue bonds payable at June 30, 2012	$ 227,010,000

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - REVENUE BONDS PAYABLE (Continued)

Revenue and refunding bonds outstanding at June 30, 2012, were as follows:

Series	Final Maturity	Interest Rates %	Balance
2000 AIII	07/01/39	5.400-6.375	$ 16,300,000
2000 BIII	07/01/40	4.900-5.875	9,800,000
2002 AI	11/01/25	3.850-5.000	5,050,000
2003 AII	11/01/23	2.400-4.400	6,750,000
2003 AI	11/01/26	2.750-5.250	18,460,000
2003 BII	11/01/29	2.750-5.250	44,195,000
2003 CII	11/01/33	2.750-5.000	14,945,000
2003 DII	11/01/24	2.750-4.850	3,985,000
2005 AIV	11/01/44	3.250-4.650	34,995,000
2005 AII	11/01/33	3.500-5.000	14,395,000
2005 BII	11/01/33	3.500-5.000	10,730,000
2005 BIV	11/01/44	3.750-5.125	10,845,000
2006 AII	11/01/39	3.750-5.000	36,560,000
			$ 227,010,000

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

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - REVENUE BONDS PAYABLE (Continued)

Total future maturities of bond principal and interest on Authority indebtedness at June 30, 2012, are as follows:

Loan Program I

	Principal	Interest	Total
11/01/12	$ 1,385,000	$ 1,084,009	$ 2,469,009
11/01/13	1,435,000	1,027,315	2,462,315
11/01/14	1,460,000	967,343	2,427,343
11/01/15	1,530,000	904,220	2,434,220
11/01/16	1,590,000	837,938	2,427,938
	7,400,000	4,820,825	12,220,825
11/01/17-11/01/21	6,155,000	2,625,188	8,780,188
11/01/22-11/01/26	8,275,000	1,515,684	9,790,684
11/01/27	1,680,000	42,000	1,722,000
	16,110,000	4,182,872	20,292,872
	$ 23,510,000	$ 9,003,697	$ 32,513,697

Loan Program II

	Principal	Interest	Total
11/01/12	$ 4,660,000	$ 6,178,394	$ 10,838,394
11/01/13	4,830,000	5,967,822	10,797,822
11/01/14	5,040,000	5,744,181	10,784,181
11/01/15	5,270,000	5,505,280	10,775,280
11/01/16	5,515,000	5,253,435	10,768,435
	25,315,000	28,649,112	53,964,112
11/01/17-11/01/21	22,115,000	18,436,330	40,551,330
11/01/22-11/01/26	30,920,000	16,761,696	47,681,696
11/01/27-11/01/31	26,705,000	7,890,956	34,595,956
11/01/32-11/01/36	17,430,000	4,146,862	21,576,862
11/01/37-11/01/40	9,075,000	1,125,875	10,200,875
	106,245,000	48,361,719	154,606,719
	$ 131,560,000	$ 77,010,831	$ 208,570,831

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - REVENUE BONDS PAYABLE (Continued)

Loan Program III

	Principal	Interest	Total
07/01/12	$ 370,000	$ 1,567,200	$ 1,937,200
07/01/13	390,000	1,545,556	1,935,556
07/01/14	420,000	1,522,300	1,942,300
07/01/15	435,000	1,497,253	1,932,253
07/01/16	465,000	1,470,103	1,935,103
	2,080,000	7,602,412	9,682,412
07/01/17-07/01/21	2,170,000	5,567,538	7,737,538
07/01/22-07/01/26	3,540,000	6,115,038	9,655,038
07/01/27-07/01/31	4,720,000	4,887,000	9,607,000
07/01/32-07/01/36	6,325,000	3,222,402	9,547,402
07/01/37-07/01/41	7,265,000	1,005,844	8,270,844
	24,020,000	20,797,822	44,817,822
	$ 26,100,000	$ 28,400,234	$ 54,500,234

Loan Program IV

	Principal	Interest	Total
07/01/12	$ 770,000	$ 2,202,319	$ 2,972,319
07/01/13	795,000	2,173,322	2,968,322
07/01/14	825,000	2,142,619	2,967,619
07/01/15	860,000	2,109,613	2,969,613
07/01/16	895,000	2,072,881	2,967,881
	4,145,000	10,700,754	14,845,754
07/01/17-07/01/21	4,025,000	7,821,356	11,846,356
07/01/22-07/01/26	6,210,000	8,557,900	14,767,900
07/01/27-07/01/31	7,010,000	6,973,006	13,983,006
07/01/32-07/01/36	8,910,000	5,025,600	13,935,600
07/01/37-07/01/41	7,785,000	2,952,825	10,737,825
07/01/42-11/01/45	7,755,000	800,431	8,555,431
	41,695,000	32,131,118	73,826,118
	$ 45,840,000	$ 42,831,872	$ 88,671,872

Total all loan programs	$ 227,010,000
Add: unamortized premium	3,064,512
Less: unamortized discount, bond issue costs and deferred losses on advance refundings	(17,646,087)
Total all programs, net	212,428,425
Less: current portion	(6,402,575)
Noncurrent portion	$ 206,025,850

8 - REVENUE BONDS PAYABLE (Continued)

In prior years, the Authority defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust accounts assets and the liabilities for the defeased bonds are not included in the Authority's financial statements. At June 30, 2012, there are $3,660,000 in defeased bonds outstanding.

The proceeds from the Authority's Revenue Bond Program provide financial assistance to municipalities, public service districts and other public subdivisions to meet the requirements of state and federal water pollution control and safe drinking water laws. All bonds are considered a moral obligation of the state of West Virginia. All assets of the Authority except capital assets have been pledged to fulfill the commitments of the bonds over the life of the debt. Principal and interest paid on bonds payable for the year ended June 30, 2012 was $6,930,000 and $11,334,241, respectively and principal payments and interest received on pledged notes receivable were $7,330,120 and $14,817,154, respectively, at June 30, 2012.

9 - PENSION PLAN

The Authority contributes to a multiple-employer, cost-sharing defined benefit pension plan administered by the West Virginia Public Employees Retirement System ("PERS"). It provides retirement, disability and death benefits to plan members and beneficiaries. State statutes establish benefit provisions. The West Virginia Consolidated Public Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information of PERS. That report may be obtained by calling 1-800-654-4406 or by writing to:

West Virginia Consolidated Public Retirement Board
4101 MacCorkle Avenue, S.E.
Charleston, West Virginia 25304

The Authority and plan members are required to contribute 14.5% and 4.5%, respectively, of annual covered salaries. The contribution requirements of the Authority and plan members are established and may be amended by State statute. The Authority's contributions to PERS for the years ended June 30, 2012, 2011 and 2010 were $136,348, $56,488, and $36,828, respectively.

10 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Authority participates in the West Virginia Other Postemployment Benefits (OPEB) Plan of the West Virginia Retiree Health Benefit Trust Fund, a multiple-employer, cost-sharing defined benefit postemployment healthcare plan administered by the West Virginia Public Employees Insurance Agency (WVPEIA). The OPEB Plan provides retiree postemployment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended, assigns the authority to establish and amend benefit provisions to the WVPEIA board of trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by calling 1-888-680-7342 or by writing to:

10 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Plan Description (Continued)

Public Employees Insurance Agency
601 57th Street, SE, Suite 2
Charleston, West Virginia 25304-2345

Funding Policy

The Code requires that the OPEB Plan bill the participating employers 100% of the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy, per month.

The Authority's contributions to the trust fund for the years ended June 30, 2012, 2011, and 2010 were $16,199, $15,295, and $7,124, respectively, and the billed ARC's were $171,529, $105,170, and $42,100 which represent 9.4%, 14.5%, and 16.9% of the ARC for the years then ended, respectively.

11 - GENERAL AND ADMINISRATIVE EXPENSES

General and administrative expenses for the year ended June 30, 2012, are as follows:

Personal services	$ 527,332
Legal	188,535
Professional	480,137
Trustee	49,889
Employee benefits	243,519
Public employees insurance	49,843
Office supplies/printing	42,962
Building	12,353
Advertising	5,669
Repairs and maintenance	453
Travel	97,131
Utilities	23,303
Telecommunications	53,028
Vehicle	22,075
Payroll taxes	6,130
Computer supplies	172,562
Janitorial	9,000
Miscellaneous	151,577
Rental	17,957
Administrative	2,664
Insurance	3,913
Training and development	5,970
	$ 2,166,002

12 - RISK MANAGEMENT

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

The Authority has obtained coverage for job-related injuries of employees and health coverage for its employees through its participation in a commercial insurance provider and the WVPEIA. In exchange for the payment of premiums to the commercial insurance provider and WVPEIA, the Authority has transferred its risk related to job-related injuries and health coverage for employees.

The Authority participates in the West Virginia Board of Risk and Insurance Management to obtain coverage for general liability, property damage, business interruption, errors and omissions, and natural disasters. Coverage is offered in exchange for an annual premium. There were no changes in coverage or claims in excess of coverage for the year ended June 30, 2012.

13 - NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which will be effective for the Authority's June 30, 2013 financial statements. GASB has also issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will be effective for the Authority's June 30, 2014 financial statements and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will require the Authority to record their proportionate share of the actuarially determined net pension obligation of the PERS and will be effective for the Authority's June 30, 2015 financial statements. The Authority has not yet determined the effect these statements will have on their financial statements.

14 - SEGMENT INFORMATION

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

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

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)

14 - SEGMENT INFORMATION (Continued)

ASSETS	Loan Program I	Loan Program II	Loan Program III
Current - unrestricted	$ 1,511,620	$ 5,184,889	$ 484,586
Noncurrent - unrestricted	-	-	-
Restricted - current and noncurrent	25,497,137	127,955,278	28,102,448
Capital	-	-	-
Total assets	27,008,757	133,140,167	28,587,034
LIABILITIES			
Current	1,283,165	5,047,824	1,114,070
Long-term	18,408,645	117,645,824	24,705,766
Total liabilities	19,691,810	122,693,648	25,819,836
NET ASSETS			
Restricted	7,088,492	10,309,454	3,396,682
Unrestricted	228,455	137,065	(629,484)
Invested in capital assets	-	-	-
Total net assets	$ 7,316,947	$ 10,446,519	$ 2,767,198
OPERATING REVENUE			
Charges for services and miscellaneous revenue	$ 1,865,654	$ 8,374,862	$ 1,635,322
OPERATING EXPENSES			
Depreciation	-	-	-
Amortization	27,567	94,619	38,779
General and administrative	-	-	-
Allocation of general and administrative	213,086	1,148,977	243,795
OPERATING INCOME	1,625,001	7,131,266	1,352,748
NONOPERATING REVENUES (EXPENSES):			
Interest and investment revenue	23,457	113,330	69
Interest expense	(1,382,613)	(6,720,610)	(1,577,688)
Transfers (net)	(322,456)	(2,626,303)	243,795
Change in net assets	(56,611)	(2,102,317)	18,924
Beginning net assets	7,373,558	12,548,836	2,748,274
Ending net assets	$ 7,316,947	$ 10,446,519	$ 2,767,198
Net cash provided by (used in):			
Operating activites	$ 2,323,597	$ 7,925,544	$ 1,971,389
Capital and related financing activities	-	-	-
Noncapital financing activities	(2,492,804)	(10,853,611)	(1,944,577)
Investing activities	335	101,398	452
Beginning cash and cash equivalents	4,738,887	10,948,284	3,712,986
Ending cash and cash equivalents	$ 4,570,015	$ 8,121,615	$ 3,740,250

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)

14 - SEGMENT INFORMATION (Continued)

ASSETS	Loan Program IV	Supplemental	Total
Current - unrestricted	$ 1,316,290	$ 12,904,329	$ 21,401,714
Noncurrent - unrestricted	-	14,805,494	14,805,494
Restricted - current and noncurrent	45,664,115	7,660,094	234,879,072
Capital assets - net	-	6,431,364	6,431,364
Total assets	46,980,405	41,801,281	277,517,644
LIABILITIES			
Current	1,145,645	432,374	9,023,078
Long-term	45,265,615	1,256,409	207,282,259
Total liabilities	46,411,260	1,688,783	216,305,337
NET ASSETS			
Restricted	398,500	6,403,685	27,596,813
Unrestricted	170,645	27,277,449	27,184,130
Invested in capital assets	-	6,431,364	6,431,364
Total net assets	$ 569,145	$ 40,112,498	$ 61,212,307
OPERATING REVENUE			
Charges for services and miscellaneous revenue	$ 2,336,925	$ 502,456	$ 14,715,219
OPERATING EXPENSES			
Depreciation	-	539,630	539,630
Amortization	24,721	(2)	185,684
General and administrative	-	2,166,002	2,166,002
Allocation of general and administrative	434,811	(2,040,669)	-
OPERATING INCOME	1,877,393	(162,505)	11,823,903
NONOPERATING REVENUES (EXPENSES):			
Interest and investment revenue	26	121,130	258,012
Interest expense	(2,194,554)	-	(11,875,465)
Transfers (net)	259,641	2,445,323	-
Change in net assets	(57,494)	2,403,948	206,450
Beginning net assets	626,639	37,708,550	61,005,857
Ending net assets	$ 569,145	$ 40,112,498	$ 61,212,307
Net cash provided by (used in):			
Operating activites	$ 2,896,771	$ 5,023,799	$ 20,141,100
Capital and related financing activities	-	(4,385,378)	(4,385,378)
Noncapital financing activities	(2,973,249)	-	(18,264,241)
Investing activities	(353)	121,105	222,937
Beginning cash and cash equivalents	(61,050)	10,396,972	29,736,079
Ending cash and cash equivalents	$ (137,881)	$ 11,156,498	$ 27,450,497

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

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

We have audited the financial statements of the West Virginia Water Development Authority (the Authority) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 12, 2012. 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

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

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the Authority in a separate letter dated October 12, 2012.

This report is intended solely for the information and use of the Authority's board, audit committee, and 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, A.C.

October 12, 2012

WEST VIRGINIA

Water Development Authority

Celebrating 38 Years of Service 1974 - 2012

APPENDIX C

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

Audited Financial Statements

West Virginia Drinking Water Treatment Revolving Fund

Year Ended June 30, 2012

GIBBONS&KAWASH
Certified Public Accountants

Audited Financial Statements

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

Year Ended June 30, 2012

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GIBBONS & KAWASH
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the West Virginia Bureau for Public Health
and the West Virginia Water Development Authority
Charleston, West Virginia

We have audited the accompanying balance sheet of the West Virginia Drinking Water Treatment Revolving Fund (the Fund), a component unit of the State of West Virginia, as of June 30, 2012, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund'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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Fund as of June 30, 2012, and the respective changes in financial position, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Fund's financial statements as a whole. The accompanying information as of and for the year ended June 30, 2012, as listed in the table of contents on page 18, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gibbons & Kawash, A.C.

October 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

INTRODUCTION

Our discussion and analysis of the West Virginia Drinking Water Treatment Revolving Fund's (the "Fund") financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the Fund's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

- Under the American Recovery and Reinvestment Act (ARRA), the Drinking Water Treatment Revolving Fund was awarded $19.5 million, of which $19.25 million was to be distributed through the drinking water revolving loan program. $686 thousand of this ARRA award was distributed in the current fiscal year. Under the ARRA program at least 50% of the $19,250,000 was required to be provided in the form of principal forgiveness loans (an approved loan type whereby the loan recipient is not required to repay the loan). The Fund closed fourteen (14) projects receiving ARRA funding over the life of the program. $18.95 million of the $19.25 million was provided in the form of principal forgiveness loans.

- Beginning in fiscal year 2012, the United States Environmental Protection Agency (the "EPA") authorized the Fund to issue principal forgiveness loans. These loans, which are issued to certain local government agencies or other eligible water providers will be forgiven on the 30th day of June in the fiscal year coinciding with the disbursement. These loans are deemed no longer outstanding after the last loan disbursement is forgiven. Therefore, it is the Fund's policy to maintain an allowance for principal forgiveness loans, equal to the amount of the disbursement, until the last disbursement is made. Consistent with the prior year, a large operating expense, loss on forgivable loans, was incurred due to the provisions of ARRA funding as well as the new provision for additional EPA principal forgiveness loans. Total principal forgiveness loans disbursed during the fiscal year totaled $3.13 million. The Fund's change in net assets, therefore, consists of total revenues, less operating expenses and capital grants and contributions.

- The Fund's assets increased by $20,227,696 or about 20%. This is largely due to an increase in the volume of loans issued and funds disbursed during the fiscal year. Because the Fund has no liabilities as of the current or prior year-end, this is also the amount of the increase in the Fund's net assets. Expenses related to the administration of the Fund are reported in the separate financial statements of the West Virginia Drinking Water Treatment Revolving Fund Program Set Aside Funds.

- The Fund's revenues increased by $77,729 or approximately 10%. This is primarily due to an increase in administrative fees of $36,759, as well as an increase in interest on loans of $56,891. The increase in revenues is due to an increase in loans closed over the past two plus years. The investment earnings decreased by $12,555 due to lower interest rates over the course of the twelve month period.

- Capital grant and contribution awards from the EPA and the State of West Virginia (the "State") continue to provide the necessary resources to the Fund to carry out its mission. Federal and state awards for the Fund are described in footnote 5 in the accompanying financial statements. Capital grants and contributions received from the EPA and the State decreased by $4,665,272 from the prior year. In fiscal years 2011 and 2010 there was an increase in the amount awarded to the Program from the EPA; however, the decrease in fiscal year 2012 is concurrent with the expectation that in the coming fiscal years the amounts awarded will return to historical levels.

FINANCIAL HIGHLIGHTS (Continued)

- Four (4) new loans were closed during the current year. Also, there are fourteen (14) additional loans that are still under construction that were closed in prior years, eight (8) of which are substantially complete.

USING THIS REPORT

This report consists of a series of financial statements. The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report the Fund's net assets and changes in them. The Fund's net assets, which is the difference between assets and liabilities, is one way to measure the Fund's financial health or financial position. Over time, increases or decreases in the Fund's net assets are one indicator of whether its financial health is improving or deteriorating.

THE FUND AS A WHOLE

Assets of the Fund increased $20,227,696 or about 20%. The Fund has no liabilities as of the current or prior year ended June 30. Therefore, the increase in assets is also the increase in the Fund's net assets. Our analysis that follows focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Fund's activities.

Table 1
Net Assets

	2012	2011
Assets		
Current assets	$ 28,821,397	$ 23,825,360
Loans receivable, less current maturities, net	92,553,117	77,321,458
Total assets	$ 121,374,514	$ 101,146,818
Net assets		
Restricted	$ 121,374,514	$ 101,146,818

THE FUND AS A WHOLE (Continued)

Table 2
Net Assets

	2012	2011
Revenues:		
Operating revenues:		
Administrative fees	$ 387,169	$ 350,410
Interest on loans	355,806	298,915
User fees	38,366	41,732
Total operating revenues	781,341	691,057
Investment earnings	22,568	35,123
Total revenues	803,909	726,180
Operating expenses	(3,129,107)	(11,102,187)
Income before capital grants and contributions	(2,325,198)	(10,376,007)
Capital grants and contributions	22,552,894	27,218,166
Increase in net assets	$ 20,227,696	$ 16,842,159

Most of the increase in the Fund's assets, and therefore its net assets, is attributable to both the capital grants and contributions received in the current year from the EPA in the amount of $17,984,694 and the State match through the West Virginia Infrastructure and Jobs Development Council in the amount of $4,568,200 totaling $22,552,894. Of the $17,984,694 received from the EPA in the current year, $2,442,558 was disbursed with an agreed 100% loan forgiveness feature. 100% of the EPA amount was for eligible costs reviewed and approved by the Fund and was disbursed as loans to local governmental agencies to assist in drinking water infrastructure projects and is included on the balance sheet in "Loans Receivable." Of the $4,568,200 received from the State during the current year, $1,969,980 remains available. In addition, $1,882,886 in cumulative investment earnings on current and previous State match amounts combine to total $3,852,866, in funds that have been committed to drinking water infrastructure projects but have not yet been expended. These moneys are invested with the West Virginia Board of Treasury Investments and are included on the balance sheet as "Cash Equivalents."

Capital grant income from the EPA is recognized after the Fund has reviewed and approved supporting invoices for disbursements of loan proceeds to local governmental agencies and the federal portion of those disbursements has been received by the Fund. Capital grant income from the EPA decreased $7,604,272 from the prior year. The sources of funding for loans to local governmental agencies, besides the capital grant income from the EPA, and the State match, include revolving loan repayments, and investment earnings, both of which have increased $3,142,100 from prior year. Four (4) loans closed during the current year, totaling $11,020,794. Two (2) loans closed in the third quarter and two (2) closed in the fourth quarter.

THE FUND AS A WHOLE (Continued)

Total revenues, including operating revenues and investment earnings totaled $803,909. This was an increase of $77,729 from prior year. This was attributed to an increase in administrative earnings of $36,759 over the prior year as well as an increase in interest on loans of $56,891 over the prior year.

The four loans that closed in the current year totaled $11,020,794. The amounts disbursed for these loans were $1,931,100 of which $1,534,597 represented federal funds with $27,175 of those funds being principal forgiveness and $396,503 represented state match, with $7,021 of those funds being principal forgiveness. The amount disbursed during the current year for loans closed in prior years totaled $21,207,438 of which $686,549 represented federal ARRA funds, $15,763,548 represented federal funds with $1,913,867 of those funds being principal forgiveness, $4,107,684 represented State match with $494,494 of those funds being principal forgiveness, and $649,657 represented proceeds from loan repayments. The sum of all disbursements for the years ended June 30, 2012 and 2011 was $23,138,538 and $30,625,068, respectively.

COMMITMENTS AND PENDING APPLICATION FOR EPA GRANT

As of June 30, 2012, the Fund had outstanding binding commitments to loan to qualified recipients of $12.5 million, and an additional $7.01 million awarded by the EPA but not yet disbursed for approved drinking water infrastructure projects. Funding for approved projects will come from resources currently available to the Fund such as loan repayments as well as federal capital grants and State matches to be paid to the Fund in future periods. As of the year ended June 30, 2012, the Fund has $22,026,430 in cash equivalents available for these projects. Additionally, the Fund has $345,025 of cash equivalents from user fees obtained from a State Settlement with the West Virginia American Water Company in 2004. The purpose for which these funds will be used has not yet been determined.

The West Virginia Bureau for Public Health intends to submit an application to the EPA for a grant for the Fund for the fiscal year 2013 grant period. The application, if approved, would result in an award from the EPA of $6,224,032. The $1,801,257 State match has been committed to the Fund in order to secure the federal funds. The total of $8,025,289, if awarded to the Fund, would be used to provide forgivable, no-interest or low-interest loans to assist in financing approved drinking water infrastructure projects, including projects approved as of June 30, 2012, as noted above.

The EPA Capitalization Grant awarded but not yet disbursed for fiscal year 2012 contains provisions which require that thirty (30) percent of each grant must be provided to eligible water system loan recipients in the form of grants, negative interest, or principal forgiveness. The potential grant award for fiscal year 2013 contains new provisions which require that not less than twenty (20) and not more than (30) percent of each grant must be provided to eligible water system loan recipients in the form of grants, negative interest, or principal forgiveness. The principal forgiveness will be provided to the loan recipients as a separate loan agreement. The principal forgiveness requirement is expected to remain a grant condition in the near future. While this new provision will not directly enhance the Fund, the plan is that it will assist in meeting the Fund's goal of providing safe drinking water infrastructure to West Virginia residents.

CONTACTING THE FUND'S MANAGEMENT

This financial report is designed to provide a general overview of the Fund's finances and to show the Fund's accountability for the money it receives. The Fund is administered by the West Virginia Water Development Authority on behalf of the West Virginia Bureau for Public Health. If you have questions about this report or need additional information, contact the Executive Director or the Chief Financial Officer of the West Virginia Water Development Authority, 1009 Bullitt Street, Charleston, West Virginia 25301; call 304-414-6500 or visit the Authority's website (www.wvwda.org).

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

BALANCE SHEET

June 30, 2012

ASSETS	
Current assets:	
Cash and cash equivalents	$ 22,371,455
User fees receivable	5,746
Administrative fees receivable	32,730
Accrued interest receivable	54,633
Current maturities of loans receivable	6,356,833
Total current assets	28,821,397
Loans receivable, less current maturities (net of principal forgiveness of $21,592,558)	92,553,117
Total assets	$ 121,374,514
LIABILITIES AND NET ASSETS	
Net assets, restricted	$ 121,374,514
Total liabilities and net assets	$ 121,374,514

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

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2012

Operating revenues:	
Administrative fees	$ 387,169
Interest on loans	355,806
User fees	38,366
	781,341
Operating expense:	
Grant expense - principal forgiveness	3,129,107
Operating loss	(2,347,766)
Nonoperating revenues:	
Investment income	22,568
Loss before capital grants and contributions	(2,325,198)
Capital grants and contributions:	
U.S. Environmental Protection Agency	17,984,694
State of West Virginia	4,568,200
	22,552,894
Increase in net assets	20,227,696
Net assets, beginning of year	101,146,818
Net assets, end of year	$ 121,374,514

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

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012

Operating activities:	
Cash payments for:	
Loans originated	$ (23,138,538)
Cash reciepts from:	
Principal repayments	3,333,763
Administrative fees	385,769
Interest on loans	343,312
User fees	42,827
Net cash used in operating activities	(19,032,867)
Capital and related financing activities:	
Capital grants and contributions received:	
U.S. Environmental Protection Agency	17,984,694
State of West Virginia, Infrastructure and Jobs Development Council	4,568,200
Net cash provided by capital and related financing activites	22,552,894
Investing activities:	
Investment income	22,568
Net increase in cash and cash equivalents	3,542,595
Cash and cash equivalents, beginning of year	18,828,860
Cash and cash equivalents, end of year	$ 22,371,455
Reconciliation of operating loss to net cash and cash equivalents used in operating activities:	
Operating loss	$ (2,347,766)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities:	
Increase in loans receivable	(16,675,668)
Increase in administrative fees receivable	(1,400)
Increase in accrued interest receivable	(12,494)
Decrease in user fees receivable	4,461
Net cash and cash equivalents used in operating activities	$ (19,032,867)
Supplemental disclosure of noncash activities:	
Loans originated with principal forgiveness features	$ 3,129,107

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

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF THE FUND

The West Virginia Drinking Water Treatment Revolving Fund (the "Fund") was established pursuant to the Safe Drinking Water Act (the "Act") by the State of West Virginia (the State), as amended, and is administered by the West Virginia Water Development Authority on behalf of the Bureau for Public Health. The purpose of the Act was to establish and implement a State-operated perpetual revolving loan fund to provide no-interest or low-interest rate loans to local governmental agencies and other eligible water providers to assist in financing drinking water infrastructure projects, including but not limited to, design, treatment, distribution, transmission, storage and extensions; and remain in perpetuity by recirculating the principal repayments and interest earned from the loans. The Fund's programs are designed to provide financial assistance in the form of no-interest, low-interest, and forgivable loans to eligible local governmental agencies and other eligible water providers in the State in accordance with the Act. Such loan programs provide long-term financing to cover all or a portion of the cost of qualifying projects.

The Fund has received capital grants and contributions from the United States Environmental Protection Agency (the "EPA"), and the State, which is required to provide an additional twenty percent of the federal award as matching funds in order to qualify for funding. As of June 30, 2012, Congress has authorized the EPA to award $150,576,500 in capitalization grants to the State, of which $115,288,911 is allocated to the fund. The state is required to contribute $26,185,300 in matching funds to the Fund, which are provided through the West Virginia Infrastructure and Jobs Development Council.

These Financial statements present the loan activity of the Fund and do not include the activity in any set-aside accounts required by the EPA grants.

2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Fund is accounted for as a proprietary fund special purpose government engaged in business type activities. In accordance with accounting principles generally accepted in the United States of America, these financial statements are prepared on the accrual basis of accounting, using the flow of economic resources measurement focus. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

The Fund is a component unit of the State and as such is included in the State's financial statements as a proprietary fund and business type activity blended component unit using the accrual basis of accounting. Because of the Fund's presentation in these financial statements as a special purpose government engaged in business type activities, there may be differences between the presentation of amounts reported in these financial statements and the financial statements of the State as a result of major fund determination.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from management's estimates.

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include investments with the West Virginia Board of Treasury Investments ("BTI") and are recorded at amortized cost which approximates fair value. The State Treasurer deposits cash with the BTI at the direction of the Water Development Authority, and deposits are not separately identifiable as to specific types of securities. Such funds are available to the Fund daily.

Loans Receivable

The State operates the Fund as a perpetual revolving loan program, whereby loans made to local governmental agencies or other eligible water providers are funded by a federal capitalization grant, including amounts awarded under the American Recovery and Reinvestment Act of 2009 (ARRA), and the State matching amount and/or repayments from existing loans. Loan funds are disbursed to the local governmental agencies or other eligible water providers as costs are incurred on approved projects. Interest, if applicable, is not paid during construction but begins accruing three months before the date that local governmental agencies or other eligible water providers begin repayment; and the payment schedule is adjusted for actual amounts disbursed and interest accrued on those disbursements. The loans are secured by a lien on the revenues of the local governmental agencies' or other eligible water providers' water systems and by debt service reserve funds held by the West Virginia Municipal Bond Commission. According to the terms as set forth in the ARRA, management believes that it is probable that certain of the local government agencies will fulfill specific ARRA loan requirements allowing for principle forgiveness, and as such a 100% principal forgiveness valuation has been made for these qualifying loans through the year ended June 30, 2012.

For the year ended June 30, 2012, the EPA began issuing principal forgiveness loans. These loans, which are issued to certain local government agencies or other eligible water providers will be forgiven on the 30th day of June in the fiscal year coinciding with the disbursement. These loans, which are secured by principal only bonds issued by the loan recipient, and held in the name of the West Virginia Water Development Authority and the West Virginia Bureau for Public Health on behalf of the Fund, are to be deemed no longer outstanding after the last loan disbursement is forgiven. Therefore, it is the Fund's policy to maintain an allowance for principal forgiveness loans, equal to the amount of the disbursement, until the last disbursement is made to the recipient and the loan can be removed from the outstanding loans list.

As of June 30, 2012, with the exception of the forgivable loans, no provision for uncollectible accounts has been made because management believes that the loans will be repaid according to the loan terms. There are no principal or interest payments in default.

Administrative Fees

Administrative fees are a percentage of the outstanding loan balance and are recognized as income when fees are earned over the life of the loan. Administrative fees are collected over the life of the loan concurrently with principle reduction payments by local governmental agencies or other eligible water providers at terms set forth in the applicable loan agreements.

Capital Grants and Contributions

Amounts received from the EPA and the State for the continued capitalization of the Fund are recorded at cost as capital grants and contributions, when the funds are received.

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net assets are reported as restricted. Restrictions of net assets are the result of constraints placed on net asset use which have been imposed by the grantor agency and by law through enabling legislation.

Operating Revenues and Expenses

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

3 - CASH AND CASH EQUIVALENTS

The Water Development Authority, as administrative agent for the Fund, adopted investment guidelines for the Fund. Those guidelines require all investment funds to be invested in accordance with the Act and applicable federal guidelines related to the Fund. In accordance with the Act, the Fund, which is comprised of "moneys appropriated to the Fund by the Legislature, moneys allocated to the State by the federal government expressly for the purpose of establishing and maintaining a drinking water treatment revolving fund and set-aside accounts, all receipts from loans made from the Fund, all income from the investment of moneys held in the Fund, and all other sums designated for deposit to the Fund from any source, public or private" is to be "continued" in the Office of the State Treasurer. The State Treasurer has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards and commissions and transfers funds to the BTI for investment in accordance with West Virginia Code, policies set by the BTI and by provisions of bond indentures and trust agreements when applicable. The Fund's cash balances are invested by the BTI in the BTI's West Virginia Money Market Pool or deposited with the State Treasurer.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The WV Money Market Pool has been rated AAAm by the 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 itself has not been rated for credit risk by any organization.

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P-1 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 WV Money Market Pool's investments (in thousands):

	Credit Rating		Carrying Value	Percent of	
Security Type	Moody's	S&P	in Thousands	Pool Assets	
Commercial paper	P-1	A-1	$ 853,470	30.62	%
Corporate bonds and notes	Aa2	AA	15,000	0.54	
	Aa3	AA	13,000	0.47	
	Aa3	A	8,000	0.29	
Total corporate bonds and notes			36,000	1.30	
U.S. agency bonds	Aaa	AA+	189,691	6.80	
U.S. treasury notes*	Aaa	AA+	330,865	11.87	
U.S. treasury bills*	Aaa	AA+	237,978	8.54	
Negotiable certificates of deposit	P-1	A-1	110,000	3.95	
U.S. agency discount notes	P-1	A-1	738,706	26.50	
Money market funds	Aaa	AAAm	200,054	7.18	
Repurchase agreements (underlying securities):					
U.S. treasury notes*	Aaa	AAA	90,204	3.24	
			$ 2,786,968	100.00	%

* US Treasury issues are explicitly guaranteed by the United States government and not subject to credit risk

Concentration of credit risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a pool's investment in a single corporate issuer. The BTI investment policy prohibits the West Virginia Money Market Pool from investing more than 5% of their assets in any one corporate name or one corporate issue.

Custodial credit risk - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

3 - CASH AND CASH EQUIVALENTS (Continued)

Interest rate risk - 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 (WAM) for the various asset types in the West Virginia Money Market Pool:

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	$ 90,204	3
U.S. treasury notes	330,865	122
U.S. treasury bills	237,978	37
Commercial paper	853,470	35
Certificates of deposit	110,000	10
U.S. agency discount notes	738,706	44
Corporate bonds and notes	36,000	48
U.S. agency bonds and notes	189,691	68
Money market funds	200,054	1
	$ 2,786,968	46

Foreign Currency risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The West Virginia Money Market Pool does not hold interests in foreign currency or interests valued in foreign currency.

4 - LOANS RECEIVABLE

As of June 30, 2012, loans receivable consisted of loans to local governmental agencies (LGA's) or other eligible water providers for qualifying projects which comply with the Act. During the year the Fund awarded $686,549 of ARRA loans, which will be forgiven over a period of years through June 2021. The Fund also issued $2,442,558 in loans whose principal was forgiven in June 2012 in accordance with funding covenants provided by the EPA. Accordingly a valuation account for expected principal forgiveness has been recorded as of June 30, 2012 for the total allotment of anticipated qualifying principal forgiveness. During the year, the Fund disbursed $20,009,431 of loans which are required to be repaid in accordance with the loan agreements.

4 - LOANS RECEIVABLE (Continued)

Loans receivable consisted of the following at June 30, 2012:

Loans without principal forgiveness features	$ 98,809,950
ARRA loans	19,250,000
EPA principal forgiveness loans	2,442,558
Total loans outstanding	120,502,508
Less:	
Allowance for expected principal forgiveness	21,592,558
Current maturities	6,356,833
Total loans receivable, net of current maturities and principal forgiveness	$ 92,553,117

Non-principal forgiveness loans mature at various intervals through March 2044, ARRA and EPA principle forgiveness loans will be forgiven over various periods through June 2049. The scheduled principal payments on principal forgiveness loans maturing in subsequent years and expected annual ARRA and EPA loan principal forgiveness in future years are as follows at June 30:

2013	$ 6,356,833
2014	7,067,778
2015	7,305,563
2016	7,349,908
2017	7,394,123
Thereafter	101,355,343
	136,829,548
Less loans closed but not disbursed at June 30, 2012	16,327,040
	120,502,508
Less current maturities	6,356,833
	114,145,675
Less allowance for expected principal forgiveness	21,592,558
Total loans receivable, net of current maturities and principal forgiveness	$ 92,553,117

5 - CAPITAL GRANTS AND CONTRIBUTIONS

The Fund is awarded grants from the EPA as authorized by the Act and the State provides matching funds from the West Virginia Infrastructure and Jobs Development Council's Infrastructure Fund. Funds drawn are recorded as capital grants and contributions from the EPA and the State. As of June 30, 2012, the cumulative amounts awarded to the Fund from the EPA and the contributed matching funds from the State were as follows:

Effective Award Date	EPA Grant	State Match
09/11/1998	$ 9,076,449	$ 2,511,760
06/11/1999	12,965,142	2,917,020
12/10/2001	5,352,330	1,551,400
11/09/2002	5,374,479	1,557,820
10/23/2003	5,556,225	1,610,500
06/16/2005	5,522,829	1,600,820
12/01/2005	5,729,139	1,660,620
12/04/2006	5,716,995	1,657,100
12/19/2007	5,678,217	1,645,860
11/07/2008	6,089,460	1,645,800
06/15/2009*	15,350,000	-
08/03/2009*	3,900,000	-
10/01/2009	5,620,740	1,629,200
07/29/2010	7,345,036	1,629,200
9/22/2010	9,466,950	2,714,600
9/15/2011	6,394,920	1,853,600
1/20/12	150,000	-
Total	$ 115,288,911	$ 26,185,300

* ARRA funds did not require a State match.

The following represents the amounts of EPA grants and State matching funds received by the Fund through June 30, 2012:

Cumulative Through	Federal	State	Total Capital Grants and Contributions
June 30, 2012	$ 108,125,481	$ 26,185,300	$ 134,310,781

6 - COMMITMENTS

The Fund has established a list of local governmental agencies that have formally been recommended by the West Virginia Infrastructure and Jobs Development Council and approved by the Bureau for Public Health to participate in future lending activities consistent with the guidelines of the Act. The following is a list of outstanding commitments as of June 30, 2012:

Local Governmental Agency (County)	Commitment Date	Amount Committed by the Fund
Beverly, Town of (Randolph)	03/15/11	$ 3,800,000
Morgantown-Quarry Run Ext (Monongalia)	11/17/11	1,014,835
Southern Jackson PSD (Jackson)	05/21/12	3,140,000
Preston County PSD #4 (Preston)	05/30/12	4,508,854
Total		$ 12,463,689

In addition, the Fund has awarded amounts not yet disbursed of approximately $16,364,339 for projects previously approved and in various stages of completion.

7 - RISK MANAGEMENT

The Fund is exposed to various risks of loss related to torts and errors and omissions. Through its participation in the West Virginia Board of Risk and Insurance Management, the Fund obtained coverage for general liability, business interruptions, and errors and omissions. Such coverage is provided in exchange for an annual premium. There were no changes in coverage or claims in excess of coverage for the year ended June 30, 2012.

8 - USER FEE

As part of the settlement in the Public Service Commission of West Virginia case concerning the acquisition of its parent company, American Water Works Company, Inc., West Virginia American Water Company (WVAWC) agreed with the State's Attorney General to pay a user fee of three percent of the gross revenues received by WVAWC from certain sales of water outside the State. Also as part of the settlement agreement effective January 1, 2003, the user fee is to be paid quarterly.

9 - NEW ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board (GASB) has issued statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which will be effective for the Fund's June 30, 2013 financial statements. GASB has also issued statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will be effective for the Fund's June 30, 2014 financial statements. The Fund has not yet determined the effect these statements will have on their financial statements.

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

SCHEDULES OF ADMINISTRATIVE FEES ACTIVITY

June 30, 2012

Schedule of assets and fund net assets	
Assets:	
Cash and cash equivalents	$ 2,593,864
Administrative fees receivable	32,730
Total assets	$ 2,626,594
Restricted net assets	$ 2,626,594
Total fund net assets	$ 2,626,594
Schedule of administrative fees activity in fund net assets	
Revenues:	
Administrative fees	$ 387,169
Interest on investments	2,540
Total revenues	$ 389,709
Expenses:	
Administrative expense	$ -
Net income	389,709
Restricted net assets - administrative fees, beginning of year	2,236,885
Restricted net assets - administrative fees, end of year	$ 2,626,594
Schedule of cash flows	
Net income	$ 389,709
Adjustments to reconcile net income to net cash provided by administrative fees and interest on investments:	
Increase in administrative fees receivable	(1,400)
Net cash provided by administrative fees and interest on investments	388,309
Cash and cash equivalents, beginning of year	2,205,555
Cash and cash equivalents, end of year	$ 2,593,864

See Independent Auditor's Report.

GIBBONS & KAWASH
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE *CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLVING FUNDS* AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE PROGRAM-SPECIFIC AUDIT OPTION UNDER OMB CIRCULAR A-133

To the West Virginia Bureau for Public Health
and the West Virginia Water Development Authority
Charleston, West Virginia

Compliance

We have audited the West Virginia Drinking Water Treatment Revolving Fund's (the Fund) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on its Capitalization Grants for Drinking Water State Revolving Funds for the year ended June 30, 2012. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Environmental Protection Agency's Capitalization Grants for Drinking Water State Revolving Funds occurred. An audit includes examining on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Fund's compliance with those requirements.

In our opinion, the Fund complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Capitalization Grants for Drinking Water State Revolving Funds for the year ended June 30, 2012.

Internal Control over Compliance

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Fund's internal control over compliance with the requirements that could have a direct and material effect on its Capitalization Grants for Drinking Water State Revolving Funds to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Fund's management, the Fund's fiscal agent, the State of West Virginia, and the federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

Gibbons & Kawash, A.C.

October 12, 2012

WEST VIRGINIA
Water Development Authority
Celebrating 38 Years of Service 1974 - 2012

APPENDIX D

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

Audited Financial Statements

West Virginia Infrastructure and Jobs Development Council

Year Ended June 30, 2012

GIBBONS&KAWASH
Certified Public Accountants

Audited Financial Statements

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

Year ended June 30, 2012

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Certified Public Accountants

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INDEPENDENT AUDITOR'S 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 governmental activities, the business-type activities and each major fund 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, 2012, which collectively comprise the Council's financial statements, 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 respective financial position of the governmental activities, the business-type activities and each major fund of the Council as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows thereof, 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 12, 2012, on our consideration of the Council's internal control over financial reporting and on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Gibbons & Kawash, A.C.

October 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

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, 2012. 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 financial statements. The Statement of Net Assets and Statement of Activities report the Council as a whole. The Governmental Fund's Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance report the Council's net assets and changes in them. The Council's net assets, which is 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.

FINANCIAL HIGHLIGHTS

Business Type Activities:

- Total assets increased $16 million from $746 million to $762 million.
- Total liabilities decreased $4 million from $120 million to $116 million.
- Net assets increased $19 million from $627 million to $646 million

Governmental Activities:

- Total assets increased from $81 dollars to $8 thousand.
- Total liabilities decreased $11 million from $253 million to $242 million.
- The deficiency in net assets decreased $11 million from ($253) million to ($242) million.

Government Wide:

- Total assets increased $16 million from $746 million to $762 million.
- Total liabilities decreased $14 million from $372 million to $358 million.
- Net assets increased by $30 million from $374 million to $404 million.

Other Highlights:

- 15 water and waste water project and economic development loans were closed for the year ended June 30, 2012 on behalf of the Council
- 13 water and wastewater and 2 Governor's contingency grants were closed for the year ended 2012 on behalf of the Council.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued
(Unaudited)

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

	2012		2011	
	Business Type Activities	Governmental Type Activities	Business Type Activities	Governmental Type Activities
Assets				
Cash equivalents	$ 172,813,338	$ 8,021	$ 160,529,944	$ 81
Investments	105,730,473	-	105,735,723	-
Assets held by others	1,000,000	-	1,000,000	-
Loans receivable, net of allowances	480,447,041	-	477,874,631	-
Other	2,080,796	-	1,254,036	-
Total assets	762,071,648	8,021	746,394,334	81
Liabilities				
Bond payable, net	113,949,562	240,796,908	116,318,362	251,227,315
Other	1,566,317	1,287,418	3,304,609	1,449,692
Total liabilities	115,515,879	242,084,326	119,622,971	252,677,007
Net assets				
Restricted	600,098,074	8,021	569,239,862	-
Unrestricted (deficit)	46,457,695	(242,084,326)	57,531,501	(252,676,926)
	$ 646,555,769	$ (242,076,305)	$ 626,771,363	$ (252,676,926)

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued
(Unaudited)

FINANCIAL ANALYSIS OF THE COUNCIL AS A WHOLE (Continued)

Table 1
Net Assets

	2012		2011	
	Business Type Activities	Governmental Type Activities	Business Type Activities	Governmental Type Activities
Revenues				
Program revenues				
Charges for services	$ 4,380,438	$ -	$ 3,161,876	$ -
General revenues				
Intergovernmental	46,000,000	24,000,000	45,163,081	24,000,000
Investment earnings	480,307	7,942	574,711	9,050
Total general revenues	46,480,307	24,007,942	45,737,792	24,009,050
Total revenues	50,860,745	24,007,942	48,899,668	24,009,050
Expenses				
General & administrative	822,300	-	1,286,492	-
Interest on long-term debt	5,549,316	12,402,534	5,638,142	13,319,893
Infrastructure and economic development	23,341,510	-	16,064,862	-
Reappropriated funds	-	-	447,383	-
Loss on uncollectible loans	2,368,000	-	750,000	-
Transfers (in) out	(1,004,787)	1,004,787	(2,022,935)	2,022,935
Total expenses	31,076,339	13,407,321	22,163,944	15,342,828
Change in net assets	19,784,406	10,600,621	26,735,724	8,666,222
Beginning net assets (deficit)	626,771,363	(252,676,926)	600,035,639	(261,343,148)
Ending net assets (deficit)	$ 646,555,769	$ (242,076,305)	$ 626,771,363	$ (252,676,926)

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued
(Unaudited)

FINANCIAL ANALYSIS OF THE COUNCIL AS A WHOLE (Continued)

Cash equivalents, which include short-term, highly liquid investments with original maturities of 90 days or less, increased $12 million, from $161 million last year to $173 million at the end of the current year. The increase in cash was the result of receiving an additional $6 million from excess lottery appropriations to be used specifically to pay debt service on bonds or notes for Chesapeake Bay projects and the repayment of one large loan and the partial repayment of a second loan. In addition, mineral severance tax, interest on loans, principal repayments of loans and investment earnings all contributed to the increases.

Offsetting these increases were expenses 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 remained stable at $106 million for the current and prior year.

Loans receivable increased $3 million. This increase was primarily the combined effect of disbursements of new and prior year loan funds to projects of approximately $26 million, less repayments of principal on loans of approximately $21 million and an increase in the allowance for doubtful accounts of $2 million.

Total liabilities decreased $15 million related mostly to a net decrease in bonds payable of $13 million. Current year principal payments on outstanding debt of $16 million decreased bonds payable. Additionally, three series of general obligation bonds were refunded, resulting in a $20 million decrease in bonds payable. A new series of general obligation bonds were issued during the current year increasing bonds payable $19.6 million, including a premium of $1 million. Offsetting that decrease was a $4 million increase in interest accreted on the general obligation bonds during the current year.

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 approximately $30.8 million during the current year. That increase can be explained primarily as follows: mineral severance tax revenue of $24 million and excess lottery appropriations of $46 million. Also, included in the increase were loan repayments of principal and interest totaling $24 million. Offsetting the increases were disbursements of $10 million for grants awarded in current and prior years, State Match of $1.8 million for the federally sponsored Drinking Water Treatment Revolving Fund and $50.6 million of principal and interest expense related to revenue and general obligation bonds which included a refunding of $19.6 million of three series of general obligation bonds. 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. As provided by enabling legislation, 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.

Unrestricted Net Assets' balance for business type activities as of June 30, 2012 is $46.5 million, a decrease from the prior year of approximately $11 million. This is due to disbursements for the State Match of $11.7 million for the federally sponsored Drinking Water Treatment and Clean Water State Revolving Funds. A portion of the Drinking Water Treatment Revolving Fund was disbursed from the restricted fund balance.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued
(Unaudited)

FINANCIAL ANALYSIS OF THE COUNCIL AS A WHOLE (Continued)

The only activity reported in the governmental fund relates to future payments of the General Obligation Bonds which mature through 2027. See Note 8 in the Notes to the Financial Statements for further detail. Although the governmental fund shows a deficit, $24 million of intergovernmental revenue is statutorily provided every year by the State of West Virginia from excess mineral severance tax in order to pay the debt service for the General Obligation Bonds. The total government – wide net asset balance as of June 30, 2012, is $404 million.

Charges for services consist of interest earnings on loans to projects which increased during the current year by approximately $1 million. Even though loans receivable had a net increase of $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 activity consists of $24 million mineral severance tax revenue and $46 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 2012. 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.

Investment earnings consist of earnings on excess lottery revenue and earnings on repayments of principal and interest on loans to projects. Investment earnings also include earnings on committed but not yet disbursed proceeds of bond issuances and earnings on mineral severance tax revenue that is invested prior to payment of debt service on the general obligation bonds. Subsequent to the payment of debt service, any residual mineral severance tax revenue is transferred to the business type activity fund and then invested accordingly.

Investment earnings for the prior and current years were $584 thousand and $488 thousand, respectively. Despite the increase in monies invested, interest rates for the money market accounts in which most of the Council's funds are invested remained low throughout the year.

Interest on long-term debt decreased $1 million. The decrease is due to a decrease in interest on general obligation bonds due to the refunding of three series of bonds on November 1, 2011, at a lower rate of interest.

Infrastructure and economic development activity consists of grants paid to projects, binding commitments as well as the contributions for the required State matches for the federally sponsored Drinking Water Treatment and Clean Water State Revolving Funds. The current year disbursement of State Matches was approximately $13.5 million, of which $4.5 million was allocated to the Drinking Water Treatment Revolving Fund and $9 million to the Clean Water State Revolving Fund. As of year-end, the Council has 38 binding commitments. These include 16 loans and 22 grants for which the funds are committed and not disbursed.

SYSTEM DESIGN AND REPORTING IMPROVEMENTS

The West Virginia Water Development Authority, on behalf of the Council, embarked on a modernization program in 2009 for our financial and operational functions. Our goal was to develop technological tools to help identify, prioritize, manage, track, and accelerate water, wastewater, and storm water projects in a cost-effective and efficient manner throughout West Virginia.

SYSTEM DESIGN AND REPORTING IMPROVEMENTS (Continued)

A fully automated Global Information System (GIS) and project application process was implemented during the first quarter of 2012. The project application process includes five separate software packages that completely transformed what was once a paper operation to one that is essentially paperless. The entire application process is now fully automated from project initiation to project completion. The GIS based system provides a complete inventory and database of all water, wastewater and storm water systems in West Virginia. All information relative to individual systems and construction projects is available to the general public as well as those responsible and accountable to manage and track all aspects of a project.

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.

On March 12, 2011, the Legislature enacted Senate Bill 245 which provides an exception to the $500 million ceiling for the limited purpose of providing grants for capital improvements for designated projects in the Chesapeake Bay and Greenbrier Watershed areas. These bonds or notes in the aggregate principal amount are not to exceed $180 million and would be repaid from special appropriated lottery revenue. During the year ended June 30, 2012, $40 million of excess lottery revenue was appropriated for and received by the Council's enterprise fund. As a result of Senate Bill 245, an additional $6 million was appropriated and received for the use of grants or debt service on bonds to be issued for Chesapeake Bay and Greenbrier Watershed projects.

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 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 are paid from repayments of principal and interest on a set of defined loans previously made by the Authority on behalf of the Council.

At year-end, $355 million (prior to amortization) in general obligation, revenue and refunding bonds issued for the benefit of the Council were outstanding versus $369 million in the prior year, a decrease of 3.8% resulting from current year scheduled principal payments, offset by current year accreted interest on capital appreciation bonds. For more information on long-term debt, please refer to Note 8 of the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued
(Unaudited)

DEBT ADMINISTRATION (Continued)

As of June 30, 2012, Assured Guaranty, the bond insurer for the West Virginia Water Development Authority, Infrastructure Revenue Bonds Series 2007A; West Virginia Water Development Authority, Infrastructure Revenue Refunding Bonds Series 2006A and Series 2006B had a Standard & Poor's rating of AA-.

As of June 30, 2012, Ambac Financial group, the bond issuer for the West Virginia Water Development Authority, Infrastructure Revenue Bonds Series 2003A, had no rating by Standard & Poor's.

As of June 30, 2012, Financial Guaranty Insurance Company, the bond insurer for the State of West Virginia, Infrastructure General Obligation Bonds Series 1996A, State of West Virginia Infrastructure General Obligation Bonds Series 1996D, State of West Virginia Infrastructure General Obligation Bonds Series 1998A, State of West Virginia Infrastructure General Obligation Bonds Series 1999A, State of West Virginia Infrastructure General Obligation Bonds Series 1999B, State of West Virginia Infrastructure General Obligation Bonds Series 1999C, State of West Virginia Infrastructure General Obligation Bonds Series 2006 and Series 2011A had no rating by Standard & Poor's.

The ratings, or lack thereof, of the bond insurers did not result in any event of default and does not affect the fixed interest rates paid on its' bonds issued on its behalf 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 its' behalf by the Authority. The outstanding revenue bonds, except for Series 2011 which was issued with a rating of AA, by Standard & Poor's, 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 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 bonds) 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 pledge to maintain a debt service reserve fund equal to the maximum annual debt service on all outstanding 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 Council continues to monitor the status of the 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 Legislature appropriated to the Council $46 million for fiscal year 2013 from the excess lottery revenue fund. This amount is contingent on revenue collected from state video lottery operations meeting expected projections; therefore, the Council may receive up to $40 million to provide additional loans, grants and other funding assistance and an additional $6 million restricted for Chesapeake Bay and Greenbrier Watershed projects.

FACTORS WHICH MAY AFFECT THE COUNCIL (Continued)

At the July 26, 2012, West Virginia Water Development Authority meeting, the Board authorized the Authority to refund one bond issue on behalf of the West Virginia Infrastructure and Jobs Development Council in November 2012, to obtain debt service savings. The proceeds of the Infrastructure Refunding Revenue Bonds (West Virginia Infrastructure and Jobs Development Council Program), 2012 Series A, will be used to refund all or a portion of the Authority's outstanding Infrastructure Revenue Bonds, 2003 Series A, in the principal amount of $26,750,000.

There are several other 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.

Due to the uncertainty on the future repayment of these loans, as well as other economic development project loans, the Council maintains a reserve for uncollectible economic development project loans to recognize current events.

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 Chief Financial Officer, West Virginia Water Development Authority, 1009 Bullitt Street, Charleston, West Virginia 25301 (Phone: 304-414-6500) or the Executive Director, West Virginia Infrastructure and Jobs Development Council, 1009 Bullitt Street, Charleston, West Virginia 25301 (Phone: 304-414-6500).

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

STATEMENT OF NET ASSETS

Year Ended June 30, 2012

ASSETS	Governmental Activities	Business Type Activities	Total
Cash equivalents	$ 8,021	$ 172,813,338	$ 172,821,359
Investments	-	105,730,473	105,730,473
Accrued interest receivable	-	2,062,164	2,062,164
Asset held by others	-	1,000,000	1,000,000
Loans receivable, net of allowances of $10,868,000	-	480,447,041	480,447,041
Miscellaneous receivable	-	18,632	18,632
Total assets	$ 8,021	$ 762,071,648	$ 762,079,669
LIABILITIES			
Accounts payable	$ -	$ 12,474	$ 12,474
Due to other State of West Virginia agencies	-	196,247	196,247
Accrued interest payable	1,287,418	1,357,596	2,645,014
General obligation bonds			
Due within one year, net of unamortized premium of $387,231, unamorized issue costs of $53,722 and losses on refunding of $251,407	15,252,100	-	15,252,100
Due after one year, net of unamortized premium of $4,793,432, unamorized issue costs of $631,798 and losses on refunding of $2,807,262	225,544,808	-	225,544,808
Revenue bonds			
Due within one year, net of unamortized premium of $47,730, unamorized discount and issue costs of $57,200 and losses on refunding of $86,730	-	2,383,800	2,383,800
Due after one year, net of unamortized premium of $1,352,247, unamorized discount and issue costs of $1,360,823 and losses on refunding of $1,655,662	-	111,565,762	111,565,762
Total liabilities	$ 242,084,326	$ 115,515,879	$ 357,600,205
NET ASSETS			
Net assets:			
Restricted	$ 8,021	$ 600,098,074	$ 600,106,095
Unrestricted (deficit)	(242,084,326)	46,457,695	(195,626,631)
Total net assets	$ (242,076,305)	$ 646,555,769	$ 404,479,464

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

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

			Net (Expenses) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Program Revenue	Governmental Activities	Business-Type Activities	Total
Governmental activities:					
Interest on long-term debt	$ 12,402,534	$ -	$ (12,402,534)	$ -	$ (12,402,534)
Business-type activities:					
Infrastructure and jobs development	32,081,126	4,380,438	-	(27,700,688)	(27,700,688)
Total primary government	$ 44,483,660	$ 4,380,438	$ (12,402,534)	$ (27,700,688)	$ (40,103,222)
General revenues:					
Intergovernmental			$ 24,000,000	$ 46,000,000	$ 70,000,000
Investment earnings			7,942	480,307	488,249
Transfers in (out)			(1,004,787)	1,004,787	-
Total general revenues and transfers			23,003,155	47,485,094	70,488,249
Change in net assets			10,600,621	19,784,406	30,385,027
Net assets (deficit), beginning of year			(252,676,926)	626,771,363	374,094,437
Net assets (deficit), end of year			$ (242,076,305)	$ 646,555,769	$ 404,479,464

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

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2012

	Debt Service Fund
ASSETS	
Cash	$ 8,021
FUND BALANCE	
Restricted	8,021
Total fund balance	$ 8,021

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

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND

Year Ended June 30, 2012

	Debt Service Fund
Revenues:	
Intergovernmental	$ 24,000,000
Investment earnings	7,942
Total revenues	24,007,942
Expenditures:	
Debt service:	
Principal	13,220,000
Interest	8,256,659
Bond issuance costs	223,290
Total expenditures	21,699,949
Other financing sources (uses):	
Face value of bonds issued	18,615,000
Premiums on bonds issued	1,024,734
Payment to refunded bonds escrow agent	(20,935,000)
Transfers out	(1,004,787)
Total other financing sources (uses):	(2,300,053)
Net change in fund balance	7,940
Fund balance, beginning of year	81
Fund balance, end of year	$ 8,021

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

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

STATEMENT OF NET ASSETS - PROPRIETARY FUND

Year Ended June 30, 2012

ASSETS	Enterprise Fund
Current assets:	
Cash equivalents	$ 172,813,338
Investments	105,730,473
Current portion of loans receivable	18,883,078
Accrued interest receivable	2,062,164
Miscellaneous receivable	18,632
Total current assets	299,507,685
Noncurrent assets:	
Asset held by others	1,000,000
Loans receivable, net of allowances of $10,868,000	461,563,963
Total noncurrent assets	462,563,963
Total assets	$ 762,071,648
LIABILITIES	
Current liabilities:	
Accounts payable	$ 12,474
Due to other State of West Virginia agencies	196,247
Accrued interest payable	1,357,596
Current portion of revenue bonds payable, net of unamortized premium of $47,730, unamorized discount and issue costs of $57,200 and losses on refunding of $86,730	2,383,800
Total current liabilities	3,950,117
Noncurrent liabilities:	
Noncurrent portion of revenue bonds payable, net of unamortized premium of $1,352,247, unamorized discount and issue costs of $1,360,823 and losses on refunding of $1,655,662	111,565,762
Total liabilities	$ 115,515,879
NET ASSETS	
Restricted	$ 600,098,074
Unrestricted	46,457,695
Total net assets	$ 646,555,769

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

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND

Year Ended June 30, 2012

	Enterprise Fund
Interest charges for services	$ 4,380,438
Operating expenses:	
Infrastructure and economic development	23,341,510
Provisions for uncollectible loans	2,368,000
General and administrative	822,300
Total operating expenses	26,531,810
Operating loss	(22,151,372)
Nonoperating revenues (expenses):	
Intergovernmental	46,000,000
Investment earnings, net	480,307
Interest on bonds	(5,549,316)
Total nonoperating revenues, net	40,930,991
Transfers in	1,004,787
Change in net assets	19,784,406
Net assets, beginning of year	626,771,363
Net assets, end of year	$ 646,555,769

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

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

Year Ended June 30, 2012

	Enterprise Fund
Cash flows from operating activities:	
Receipts of principal on loans	$ 21,055,994
Receipts of interest on loans	3,574,780
Disbursements of loans	(25,996,404)
Disbursements of grants	(23,341,510)
Disbursements of general and administrative expenses	(2,537,860)
Net cash used in operations	(27,245,000)
Cash flows from noncapital financing activities:	
Excess lottery and other appropriations	46,000,000
Transfers in	1,004,787
Principal paid on revenue bonds	(2,465,000)
Interest paid on revenue bonds	(5,475,848)
Net cash provided by noncapital financing activities	39,063,939
Cash flows from investing activities:	
Proceeds from sale of investments	5,250
Investment earnings	459,205
Net cash provided by investing activities	464,455
Net increase in cash and cash equivalents	12,283,394
Cash and cash equivalents, beginning of year	160,529,944
Cash and cash equivalents, end of year	$ 172,813,338
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (22,151,372)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Provision for loan losses	2,368,000
Changes in assets and liabilities:	
Due to other agencies	(1,694,634)
Loans receivable	(4,940,410)
Miscellaneous receivables	243
Accrued interest receivable	(805,901)
Accounts payable	(20,926)
Net cash used in operating activities	$ (27,245,000)

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

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO 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 their 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 agent of the West Virginia Infrastructure Fund and is authorized to issue infrastructure revenue and refunding bonds on behalf of the Council.

As the state is able to impose its will over the Council, the Council's debt service fund and proprietary fund are presented in the State's comprehensive annual financial report as a blended component unit.

2 - GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the government. The effect of interfund activity has been eliminated from these statements. *Governmental activities,* which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

Separate financial statements are provided for the governmental fund and the enterprise fund, which are reported as separate columns in the government-wide financial statements.

3 - MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

3 - MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

The government reports the following major governmental fund:

The *Debt Service Fund* accounts for the accumulation of resources for, and the payment of, principal and interest on long term debt.

The government reports the following major proprietary fund:

The *Enterprise Fund* accounts for the operations of activity that is financed with debt, which is secured by a pledge of fees and charges for that activity.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund are interest on loans receivable. Operating expenses for the proprietary fund includes the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

4 - SIGNIFICANT ACCOUNTING POLICIES

Budgetary Accounting

Except for excess lottery revenue appropriated for expenditures in the enterprise fund and coal severance taxes appropriated for debt service in the debt service fund, 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

4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Uncollectible Loans (Continued)

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.

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.

Interfund Transactions

During the normal course of Council operations, transfers of resources to provide services take place between funds. Interfund transactions are recorded as transfers as determined by Council management.

Bond Discounts and Issuance Costs

Bond discounts and issuance costs are amortized using the straight-line method over the varying terms of the bonds issued. The straight-line method is not in accordance with GAAP, but the difference in amortization using the straight-line method, versus the effective interest method which is in accordance with GAAP, is not material.

Fund Balances

In the governmental fund financial statements, fund balance has been reported as restricted. Restricted fund balances represent fund balances which are restricted by constraints placed on its use of resources by either: (1) externally imposed creditors, grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions and enabling legislation. The Council's governmental fund is restricted by enabling legislation.

Net Assets

Net assets are presented as either restricted or unrestricted in the government-wide financial statements and in the proprietary fund. 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. When both restricted and unrestricted resources are available for use, it is generally the Council's policy to use restricted resources first, and then unrestricted resources as they are needed.

5 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported in the statement of net assets differ from the governmental fund balance sheet because of the following:

Total fund balance on governmental fund balance sheet	$	8,021
Under the current financial resources measurement focus and modified accrual basis of accounting, liabilities related to debt services are not recorded until due:		
General obligation bonds		(240,796,908)
Accrued interest on general obligation bonds		(1,287,418)
Net assets (deficit) of governmental activities	$	(242,076,305)

Amounts reported in the statement of activities differ from the statement of revenues, expenditures, and changes in fund balance - governmental fund because of the following:

Net change in fund balance - governmental fund	$	7,940
Principal debt payments recorded on the modified accrual basis of accounting		13,220,000
Bond issuance costs		223,290
Proceeds from general obligation refunding bonds, including premiums		(19,639,734)
Payment to refunded bonds escrow agent		20,935,000
Accretion of interest related to capital appreciation bonds		(4,145,875)
Change in net assets of governmental activities	$	10,600,621

6 - DEPOSIT AND INVESTMENT RISK DISCLOSURES

The Authority, as fiscal agent for the Council, adopted and adheres to investment guidelines for the Council. 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.

6 - 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 with a carrying amount of $8,021 at June 30, 2012.

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 (WAM) of the investments of the West Virginia Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from the date of purchase. The following table provides information on the WAM for the various asset types in the West Virginia Money Market Pool:

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	$ 90,204	3
U.S. Treasury notes	330,865	122
U.S. Treasury bills	237,978	37
Commercial paper	853,470	35
Certificates of deposit	110,000	10
U.S. agency discount notes	738,706	44
Corporate bonds and notes	36,000	48
U.S. agency bonds and notes	189,691	68
Money market funds	200,054	1
	$ 2,786,968	46

Interest Rate Risk - All Other Investments

As of June 30, 2012, the Council had the following investments and maturities:

		Investment Maturities (in Years)		
Investment Type	Fair Value	Less than 1	1-5	6-10
Guaranteed investment contracts	$ 5,758,223	$ -	$ 5,758,223	$ -
U.S. Treasury obligations	99,972,250	99,972,250	-	-
Money markets	172,813,338	172,813,338	-	-
	$278,543,811	$272,785,588	$ 5,758,223	$ -

6 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)

Interest Rate Risk - All Other Investments (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 Authority.

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 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. The West Virginia Money Market Pool is not exposed to concentration of credit risk.

Concentration of Credit Risk - All Other Investments

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. The enterprise fund investment portfolio's percentage of permitted investments is shown below:

	Permitted Investments	Maximum Percentage of Portfolio	Enterprise Fund Percentage as of June 30, 2012
(a)	Direct Federal Obligations	100%	35.89%
(b)	Federally Guaranteed Obligations	100%	-
(c)	Federal Agency Obligations	90%	-
(d)	Money Markets	90%	62.04%
(e)	Repurchase Agreements/Investment Contracts	90%	2.07%
(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%	-

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)

Concentration of Credit Risk - All Other Investments (Continued)

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 - 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 WV Money Market Pool has been rated AAAm by Standard & Poor's. A fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standards & Poor's. The BTI itself has been rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher, commercial paper must be rated at least A-1 by Standard & Poor's and P-1 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 rating of the WV Money Market Pool's investments (in thousands):

Security Type	Credit Rating Moody's	Credit Rating S&P	Carrying Value in Thousands	Percent of Pool Assets
Commercial paper	P-1	A-1	$ 853,470	30.62 %
Corporate bonds and notes	Aa2	AA	15,000	0.54
	Aa3	AA	13,000	0.47
	Aa3	A	8,000	0.29
Total corporate bonds and notes			36,000	1.30
U.S. agency bonds	Aaa	AA+	189,691	6.80
U.S. Treasury notes *	Aaa	AA+	330,865	11.87
U.S. Treasury bills *	Aaa	AA+	237,978	8.54
Negotiable certificates of deposit	P-1	A-1	110,000	3.95
U.S. agency discount notes	P-1	A-1	738,706	26.50
Money market funds	Aaa	AAAm	200,054	7.18
Repurchase agreements (underlying securities):				
U.S. Treasury notes *	Aaa	AAA	90,204	3.24
			$ 2,786,968	100.00 %

* U.S. Treasury issues are explicity guaranteed by the United States government and are not subject to credit risk.

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)

Credit Risk - All Other Investments

The table below provides information on the credit ratings of the Council's cash equivalents and investments:

Security Type	Moody's	Standard & Poors	Fair Value
Investment of bond proceeds:			
Guaranteed investment contracts	Aa3	AAA	$ 5,758,223
Investment of other revenues:			
Money markets	Aaa-mf	AAAm	172,813,338
U.S. Treasury obligations	Aaa-mf	AAAm	99,972,250
West Virginia Money Market Pool	-	AAAm	8,021
Total cash equivalents and investments			$ 278,551,832

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-mf by Moody's and AAAm 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.

Custodial Credit Risk - West Virginia Money Market Pool

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the BTI will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

6 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)

Custodial Credit Risk - All Other Investments

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, 2012, 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 Statement of Net Assets - Proprietary Fund is as follows:

As disclosed in this Note:	
Total investments	$ 278,551,832
Less: cash equivalents	(172,821,359)
Carrying amount of investments	$ 105,730,473
As reported on the Statement of Net Assets - Proprietary Fund:	
Investments	$ 105,730,473

7 - REFUNDINGS OF DEBT

On September 28, 2011, the State issued Infrastructure General Obligation Refunding Bonds, 2011 Series A, in the amount of $18,615,000 with interest rates ranging from .20% to 3.00%, to refund $7,270,000, $6,865,000, and $5,025,000 of the State's outstanding Series 1996B, 1998B, and 1999B general obligation bonds, respectively, with interest rates ranging from 5.00% to 5.90%. The proceeds of $19,639,735 (including original issue premium of $1,024,735) were used to pay $234,240 in underwriting and other issuance costs relating to the refunding bond issue; provide for the November 1, 2011 refunds of $7,270,000, $6,865,000, and $5,025,000 of the Series 1996B, 1998B, and 1999B general obligation bonds, respectively, plus accrued interest through November 1, 2011.

The State completed the refunding to reduce its total debt service payments over the next 11 years by $2,863,431 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 $2,610,927.

8 - LONG -TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

	Balance July 1, 2011	Additions/ Accretions	Debt Reductions	Balance June 30, 2012
Governmental Fund Type:				
General Obligation Bonds*				
1996 Series A, B, C, D, and E	$ 23,675,000	$ -	$ 9,430,000	$ 14,245,000
1998 Series A, B, and C	34,420,000	-	8,320,000	26,100,000
1999 Series B and C	15,800,000	-	6,350,000	9,450,000
1999 Series A Capital Appreciation	84,651,659	4,383,775	6,975,000	82,060,434
2006 Series Refunding	91,970,000	-	2,615,000	89,355,000
2011 Series A Refunding	-	18,615,000	465,000	18,150,000
	250,516,659	22,998,775	34,155,000	239,360,434

	Balance July 1, 2011	Additions/ Accretions	Debt Reductions	Balance June 30, 2012
Business type activity:				
Revenue and Refunding Bonds				
2003 Series A	29,000,000	-	1,130,000	27,870,000
2006 Series A	42,135,000	-	735,000	41,400,000
2006 Series B	9,925,000	-	60,000	9,865,000
2007 Series A	37,115,000	-	540,000	36,575,000
	118,175,000	-	2,465,000	115,710,000
Total	$ 368,691,659	$ 22,998,775	$ 36,620,000	$ 355,070,434

Debt Service Fund

*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 totaling $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. In September 2011, the Infrastructure General Obligation Refunding Bonds, Series 2011A, refunded the Series 1996B, Series 1998B, and Series 1999B Bonds.

The proceeds from the Council's bond programs provide financial assistance to infrastructure and economic development projects throughout the state. All general obligation bonds are considered a moral obligation of the State of West Virginia. The source of repayment for the general obligation, capital appreciation, and refunding bonds is the annual receipt of $24 million of mineral severance tax

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - LONG -TERM DEBT (Continued)

revenue deposited into the Governmental Fund from the State's general fund. Principal, net of accretion, and interest paid on these bonds were $13,220,000 and $8,384,877, respectively for the year ended June 30, 2012.

Future maturities of general obligation bonds and capital appreciation bonds, with interest rates ranging from .20% to 7.625% and maturing through 2027, are as follows:

General Obligation Bonds:

	Principal	Interest	Total
2013	$ 8,020,000	$ 7,585,699	$ 15,605,699
2014	8,355,000	7,264,275	15,619,275
2015	8,785,000	6,888,238	15,673,238
2016	9,260,000	6,459,684	15,719,684
2017	9,675,000	5,957,322	15,632,322
	44,095,000	34,155,218	78,250,218
2018 - 2022	41,545,000	18,192,156	59,737,156
2023 - 2027	71,660,000	11,000,994	82,660,994
	113,205,000	29,193,150	142,398,150
	157,300,000	$ 63,348,368	$ 220,648,368

Capital Appreciation Bonds:

	Principal, net of amounts to be accreted in future years	Amounts to be accreted in future years	Total
2013	7,028,200	$ 121,800	$ 7,150,000
2014	6,672,168	477,832	7,150,000
2015	6,283,753	816,247	7,100,000
2016	5,921,509	1,128,491	7,050,000
2017	5,667,498	1,457,502	7,125,000
	31,573,128	4,001,872	35,575,000
2018 - 2022	26,797,301	13,227,699	40,025,000
2023 - 2027	23,690,005	22,509,995	46,200,000
	50,487,306	35,737,694	86,225,000
Total capital appreciation bonds	82,060,434	$ 39,739,566	$ 121,800,000
Total general obligation bonds	239,360,434		
Add: unamortized premium	5,180,663		
Less: unamortized issue costs	(685,520)		
unamortized loss on refunding	(3,058,669)		
Total, net	240,796,908		
Less: amount due within one year	(15,252,100)		
Amount due after one year	$ 225,544,808		

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - LONG -TERM DEBT (Continued)

Business Type Activity

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

	Principal	Interest	Total
2013	$ 2,480,000	$ 5,383,235	$ 7,863,235
2014	2,640,000	5,284,573	7,924,573
2015	2,765,000	5,174,578	7,939,578
2016	2,880,000	5,055,178	7,935,178
2017	2,745,000	4,936,303	7,681,303
	13,510,000	25,833,867	39,343,867
2018 - 2022	11,990,000	18,472,025	30,462,025
2023 - 2027	17,755,000	19,706,743	37,461,743
2028 - 2032	20,320,000	15,123,581	35,443,581
2033 - 2037	23,810,000	9,838,750	33,648,750
2038 - 2042	20,570,000	3,877,788	24,447,788
2043 - 2046	7,755,000	799,069	8,554,069
	102,200,000	67,817,956	170,017,956
Total revenue and refunding bonds	115,710,000	$ 93,651,823	$ 209,361,823
Add: unamortized premium	1,399,977		
Less: unamortized issue costs	(1,332,783)		
unamortized discount	(85,240)		
unamortized loss on refunding	(1,742,392)		
Total, presented net	113,949,562		
Less: amount due within one year	(2,383,800)		
Amount due after one year	$ 111,565,762		

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. Repayments of principal and interest on the defined loans of $6,900,304 and $1,088,374 respectively were available for revenue bond debt service of $7,940,848, comprised of $2,465,000 for principal and $5,475,848 for interest, respectively for the year ended June 30, 2012.

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, 2012, the Council had no liability for excess investment earnings on bond proceeds.

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - 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, 2012, there were $10,810,000 in defeased general obligation bonds and $9,544,677 in defeased revenue bonds outstanding.

9 - TRANSACTIONS WITH STATE OF WEST VIRGINIA AGENCIES

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 2012. Funds remaining after the payment of general obligation bonds debt service have been transferred to the Enterprise 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, 2012, $46 million was appropriated for and received by the Council.

During the year ended June 30, 2012, the Council contributed $4,567,200 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, 2012, the Council contributed $9,010,000 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.

The West Virginia Water Development Authority (the Authority) as the fiduciary agent of the Council, pays for certain expenses on behalf of the Council. As of June 30, 2012, the Council had incurred $822,300 of expenses of which $196,247 remains unpaid at June 30, 2012.

10 - SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses in the enterprise fund expenses for the year ended June 30, 2012, were as follows:

Salaries and benefits	$	353,743
Legal		202,549
Consulting and professional		66,387
Rentals		1,245
Travel and training		9,658
Office supplies		10,116

10 - SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES (Continued)

Computer services	48,757
Telecommunications	6,999
Trustee	111,263
Insurance	2,188
Postage	925
Property tax	6,470
Fiduciary administrative	2,000
Total general and administrative	$ 822,300

11 - RISK MANAGEMENT

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

The Council has obtained coverage for job-related injuries of employees and health coverage for its employees through its participation in a commercial insurance provider and the WVPEIA. In exchange for the payment of premiums to the commercial insurance provider and WVPEIA, the Council has transferred its risk related to job-related injuries and health coverage for employees.

The Council participates in the West Virginia Board of Risk and Insurance Management to obtain coverage for general liability, property damage, business interruption, errors and omissions, and natural disasters. Coverage is offered in exchange for an annual premium. There were no changes in coverage or claims in excess of coverage for the year ended June 30, 2012.

12 - RESTRICTED NET ASSETS

Restrictions of net assets are the result of constraints placed on net asset use which have been imposed through third party bond indentures and enabling legislation. The enterprise fund Statement of Net Assets reports $600,098,074 of restricted net assets, of which $112,073,244 is restricted for the debt service related to the revenue bonds.

13 - COMMITMENTS

The Council's Enterprise Fund 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, 2012, $59,362,514 was designated by the Council for loans and grants. Additionally, the Council has designated $1,801,257 for contributions to one State agency for the required State match for federally sponsored revolving funds.

14 - NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which will be effective for the Council's June 30, 2013 financial statements. GASB has also issued

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)

14 - NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will be effective for the Council's June 30, 2014 financial statements and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will require the Council to record their proportionate share of the actuarially determined net pension obligation of the PERS and will be effective for the Council's June 30, 2015 financial statements. The Council has not yet determined the effect these statements will have on their financial statements.

15 - SEGMENT INFORMATION

The presentation of segment information for the Council's Enterprise Fund, which follows, conforms with the requirements of GASB Statement No. 37, "Basic Financial Statements - and Management's Discussion and Analysis – for the State and Local Governments: Omnibus."

The Defined Loan Program consists of a series of defined loans, which are the primary source of repayment of the revenue bonds, as dictated by the bond resolutions.

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)
June 30, 2012

15 - SEGMENT INFORMATION (Continued)

	Defined Loan Program
ASSETS	
Current	$ 23,482,867
Noncurrent	204,159,499
Total assets	227,642,366
LIABILITIES	
Current	4,003,360
Noncurrent	111,565,762
Total liabilities	115,569,122
NET ASSETS	
Restricted	$ 112,073,244
OPERATING REVENUE	
Charges for services	$ 1,088,374
OPERATING EXPENSES	
General and administrative	316,980
Interest on bonds	5,549,316
OPERATING LOSS	(4,777,922)
NONOPERATING REVENUES (EXPENSES):	
Interest and investment revenue, net of arbitrage	275,127
Transfers (net)	(153,858)
Change in net assets	(4,656,653)
Beginning net assets	116,729,896
Ending net assets	$ 112,073,243
CASH FLOWS	
Net cash provided (used) by:	
Operating activites	$ 2,230,839
Noncapital financing activities	(2,368,800)
Investing activities	(1,275)
Beginning cash and cash equivalents	15,960,844
Ending cash and cash equivalents	$ 15,821,608

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

To the Board of Directors
West Virginia 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, 2012, and have issued our report thereon dated October 12, 2012. 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

Management of the Council is responsible for establishing and maintaining effective 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 *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Council's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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*.

This report is intended solely for the information of the Council, the Council's fiscal agent, 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, A.C.

October 12, 2012