



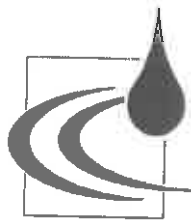
# **WV WATER DEVELOPMENT AUTHORITY FY 2014 ANNUAL REPORT**

**Earl Ray Tomblin  
Governor**

**Chris E. Jarrett  
Executive Director**

**Issued December, 2014**

**[www.wvwda.org](http://www.wvwda.org)**



WEST VIRGINIA  
**Water Development Authority**

Earl Ray Tomblin  
Governor

# ANNUAL REPORT FISCAL YEAR 2014

## BOARD

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Ex Officio Member

## Authority

Chris E. Jarrett  
Executive Director

**STATE OF WEST VIRGINIA  
WATER DEVELOPMENT AUTHORITY**

**TABLE OF CONTENTS**

	<u>Page</u>
Mission .....	1
Establishment .....	1
Goals .....	2
Objectives .....	2
Responsibilities .....	3
Accomplishments .....	5
Programs.....	5
Debt Administration .....	6
Clean Water State Revolving Fund .....	6
Drinking Water Treatment Revolving Fund.....	7
West Virginia Infrastructure Fund .....	7
Appendix A	Organizational Chart
Appendix B	West Virginia Water Development Authority Financial Statements with Independent Auditors Report
Appendix C	West Virginia Drinking Water Treatment Revolving Fund Financial Statements with Independent Auditors Report
Appendix D	West Virginia Infrastructure and Jobs Development Council Financial Statements with Independent Auditors Report

# **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 ten 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 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 revolving 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, 2014.
- 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 for all loans outstanding as of June 30, 2014.
- 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 40 Years of Service 1974 – 2014.**
- Closed 73 loans and grants totaling \$159 million this year to communities for water, wastewater and economic development projects.
- Provided servicing for over 774 loans (local bonds of communities) outstanding as of June 30, 2014 totaling \$1.115 billion.
- Acted in a fiduciary capacity for funding of loans and grants in excess of \$1.425 billion and continued to meet the challenge of enhancing and creating adequate infrastructure for the citizens of West Virginia.
- Refunded two bonds resulting in a savings of \$6,487,491 over the remaining life of the refunding bonds.

## 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 were issued October 16, 2014 in the amount of \$75,790,000 plus an issue premium of \$12,350,934.85 for a total of \$88,140,934.85 and will 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 \$319 million in revenue and refunding bonds outstanding, including \$111 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, 2014, DEP had been awarded twenty-five capitalization grant awards for the CWSRF from the EPA totaling \$575.5 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 \$102.9 million in matching funds, of which \$84.4 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, 2014, the Bureau for Public Health (“BPH”) had been awarded eighteen capitalization grant awards from the EPA totaling \$168.0 million, one of those grant awards being a Stimulus Grant, of which \$127.3 million was allocated to the DWTRF and \$40.7 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 \$29.7 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 five 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 \$210.4 million in infrastructure revenue and refunding bonds issued, \$111.2 million are outstanding.

For additional information on the various programs the WDA administers, visit the WDA's website at [www.wvwda.org](http://www.wvwda.org) and click on links to access the CWSRF, DWTRF and WVIF.



**WEST VIRGINIA**

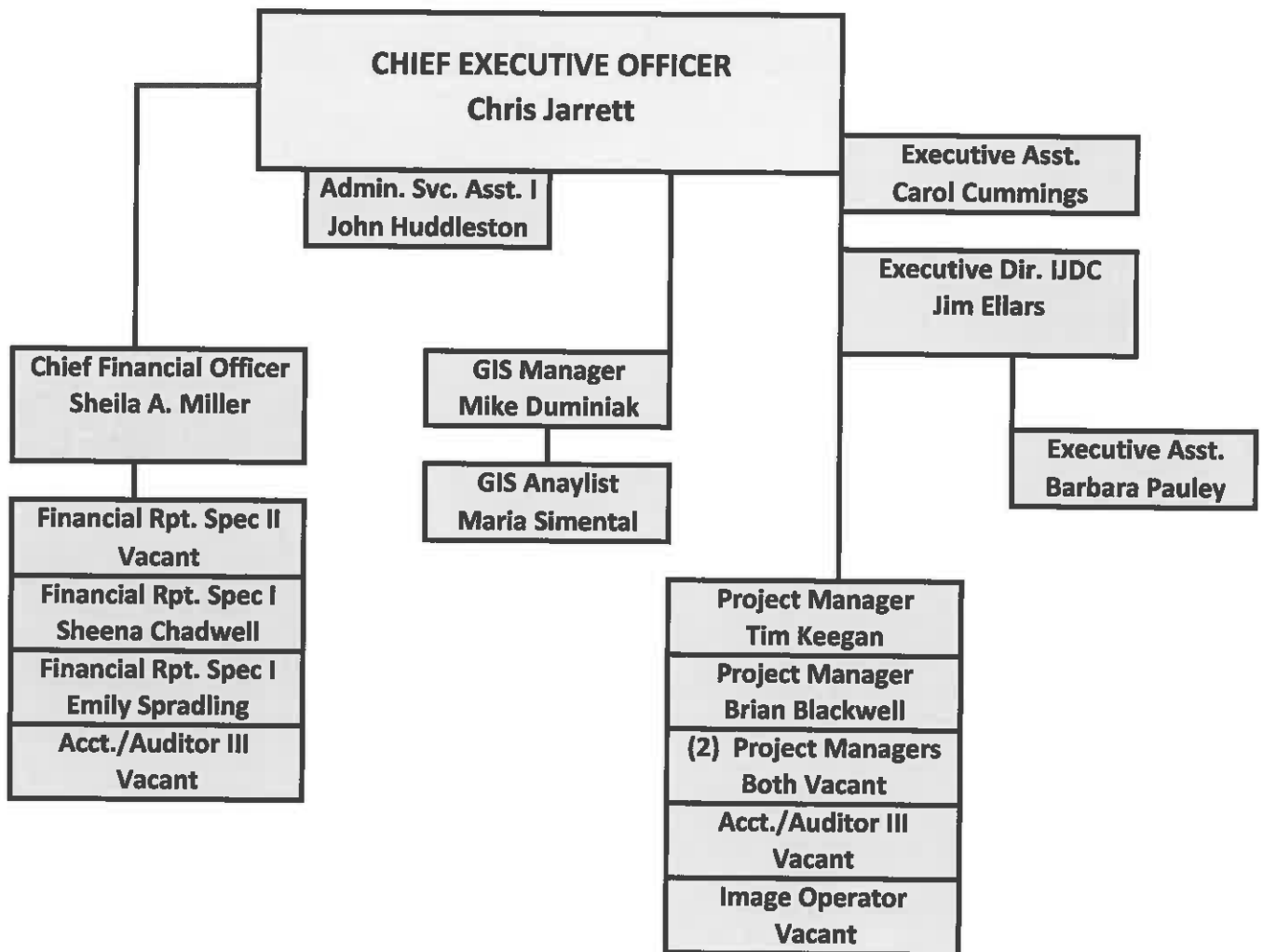
**Water Development Authority**

*Celebrating 40 Years of Service 1974 - 2014*

# APPENDIX A

## ORGANIZATIONAL CHART

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**  
**FY 2014**  
**ORGANIZATIONAL CHART**





**WEST VIRGINIA**  
**Water Development Authority**  
*Celebrating 40 Years of Service 1974 - 2014*

## **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, 2014**

Audited Financial Statements  
WEST VIRGINIA WATER DEVELOPMENT AUTHORITY  
Year Ended June 30, 2014

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements:	
Statement of Net Position	8-9
Statement of Revenues, Expenses, and Changes in Fund Net Position	10
Statement of Cash Flows	11
Notes to Financial Statements	12-27
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28-29



## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia Water Development Authority (the Authority), a component unit of the State of West Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *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, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters*****Required Supplementary Information***

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 basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2014, on our consideration of the Authority'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

Charleston, West Virginia  
October 6, 2014

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY  
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 plans to hire seven additional employees in the next fiscal year.

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, 2014, 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 Position and Statement of Revenues, Expenses, and Changes in Fund Net Position report the Authority's net position and the annual changes in net position. The Authority's net position, which is the difference between assets, deferred outflows of resources, and liabilities is one way to measure the Authority's financial health or financial position.

## **FINANCIAL HIGHLIGHTS**

- Total assets of the Authority decreased \$6.3 million or 2%. Deferred outflows of resources decreased by \$1.5 million or 12%. There was a decrease in total liabilities of \$9.2 million or 4%. Total net position increased \$1.4 million or approximately 2%.
- Total revenues decreased \$1.0 million or approximately 7%. This was primarily due to a gain on the sale of assets of \$629 thousand during fiscal year 2013 and a decrease in charges for services of \$596 thousand in the current fiscal year, offset by an increase in other revenue of \$192 thousand in the current fiscal year.

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued  
(Unaudited)**

**FINANCIAL HIGHLIGHTS (Continued)**

- Total expenses decreased \$1.4 million or approximately 9%. This was primarily the combined result of a \$1.4 million decrease in interest expense and a \$74 thousand increase in operating expenses in the current fiscal year. The increase in operating expense is the result of additional depreciation expense for the office building and computer software.

**THE AUTHORITY AS A WHOLE**

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

**Table 1  
Net Position**

	2014 WDA	2013 WDA	Increase (Decrease)
<b>Assets</b>			
Current assets	\$ 22,494,003	\$ 21,843,903	\$ 650,100
Non current assets	244,010,269	250,939,139	(6,928,870)
<b>Total assets</b>	<b>\$ 266,504,272</b>	<b>\$ 272,783,042</b>	<b>\$ (6,278,770)</b>
<b>Deferred outflows of resources</b>			
Deferred loss on bond refundings	\$ 11,005,887	\$ 12,512,593	(\$1,506,706)
<b>Total deferred outflows of resources</b>	<b>\$ 11,005,887</b>	<b>\$ 12,512,593</b>	<b>(\$1,506,706)</b>
<b>Liabilities</b>			
Current liabilities	\$ 10,296,275	\$ 10,002,388	\$ 293,887
Long-term debt outstanding	208,274,712	217,721,545	(9,446,833)
<b>Total liabilities</b>	<b>\$ 218,570,987</b>	<b>\$ 227,723,933</b>	<b>\$ (9,152,946)</b>
<b>Net position</b>			
Investment in capital assets	7,532,093	7,527,254	4,839
Restricted	25,301,262	24,451,590	849,672
Unrestricted	26,105,817	25,592,858	512,959
<b>Total net position</b>	<b>\$ 58,939,172</b>	<b>\$ 57,571,702</b>	<b>\$ 1,367,470</b>

**Total assets** decreased \$6.3 million or 2%. Decreases to assets were the result of the use of assets to fund interest expense of \$9.4 million on bonds payable, scheduled principal payments on bonds payable of \$7.5 million, and general and administrative expenses of \$2 million. The decrease to total assets was substantially offset by operating revenues including revenues from interest on revenue bonds receivable reflected in the financial statements as "charges for services" of \$13.9 million and interest on investments of \$257 thousand. During the year, the Authority disbursed \$1.8 million in loans from unrestricted resources available to the Authority, of which \$1.2 million was related to four wastewater/water projects that were closed in fiscal year 2014.

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued  
(Unaudited)**

**THE AUTHORITY AS A WHOLE (Continued)**

**Deferred outflows of resources** decreased by \$1.5 million which was the result of the 2013 refunding of the 2003 Series B bonds and 2003 Series D bonds (Loan Program II) which resulted in an overall gain on refunding of \$824 thousand plus the current year amortization on the deferred loss on bond refundings of \$682 thousand.

**Total liabilities** decreased approximately \$9.2 million or 4%. The majority of the decrease was in revenue bonds payable, which are presented on the balance sheet net of unamortized premiums.

**Unrestricted net position** increased \$513 thousand, primarily explained by the combined result of \$398 thousand increase in net position in unrestricted accounts, a \$346 thousand transfer from the restricted portion of revenue bonds receivable in the four loan programs to current assets, an \$85 thousand increase in receivables due from other agencies, and a decrease in interest payable of \$187 thousand. Offsetting these factors was a decrease in interest receivable of \$162 thousand and a transfer from restricted liabilities of \$325 thousand for the current portion of revenue bonds payable.

**Restricted net position** increased \$850 thousand as a result of decreases in the amount of loan disbursements from restricted net position, combined with cash collections on loan repayments in excess of cash disbursements for debt service.

**Table 2  
Changes in Net Position**

	2014	2013	Increase
	WDA	WDA	(Decrease)
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 13,905,688	\$ 14,501,304	\$ (595,616)
Other	228,460	36,642	191,818
<b>Total operating revenues</b>	<b>\$ 14,134,148</b>	<b>\$ 14,537,946</b>	<b>\$ (403,798)</b>
<b>Nonoperating revenues:</b>			
Interest and investment revenue, net of arbitrage	\$ 256,560	\$ 256,538	\$ 22
Gain on sale of assets	-	628,865	\$ (628,865)
<b>Total revenues</b>	<b>\$ 14,390,708</b>	<b>\$ 15,423,349</b>	<b>\$(1,032,641)</b>
<b>Expenses:</b>			
Operating expenses	\$ 3,668,862	\$ 3,594,460	\$ 74,402
Nonoperating expenses:			
Interest expense	9,351,809	10,794,646	(1,442,837)
Loss on disposal of assets	2,567	-	2,567
<b>Total expenses</b>	<b>13,023,238</b>	<b>14,389,106</b>	<b>(1,365,868)</b>
<b>Change in net position</b>	<b>1,367,470</b>	<b>1,034,243</b>	<b>333,227</b>
<b>Beginning net position</b>	<b>57,571,702</b>	<b>56,537,459</b>	<b>1,034,243</b>
<b>Ending net position</b>	<b>\$ 58,939,172</b>	<b>57,571,702</b>	<b>\$ 1,367,470</b>

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued  
(Unaudited)**

**THE AUTHORITY AS A WHOLE (Continued)**

**Charges for services** decreased \$596 thousand. This is primarily due to only four loans closing during the current year of approximately \$1.2 million and to continuing low interest rates on loans already in the portfolio.

**Other** increased \$192 thousand primarily due to income from the Infrastructure Jobs and Development Council for their respective share of building costs.

**Interest and investment revenue, net of arbitrage** remained unchanged due to stable short term interest rates available to the Authority from period to period on comparable asset balances.

**Operating expenses** increased \$74 thousand from the prior year. This increase was primarily additional depreciation expense for the office building and computer software.

**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 outstanding long-term debt for prepayment and refunding opportunities for debt service savings. At year end, the Authority had \$208 million in revenue and refunding bonds outstanding versus \$218 million in the prior year, a decrease of 5%.

As of June 30, 2014, National Public Finance Guarantee Corporation, the bond insurer for the West Virginia Water Development Authority Revenue Refunding Bonds (Loan Program II) 2005 Series A-II and B-II and 2006 Series A-II had a Standard & Poor's rating of AA-.

As of June 30, 2014, the 2012 Series A-I and B-I, 2012 Series A-II and B-II, 2013 Series A-II, and 2012 Series A-III and B-III had a Moody's rating of Aa3 and a Fitch rating of AA-.

As of June 30, 2014, 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, 2014, the West Virginia Water Development Revenue Bonds (Loan Program IV) 2005 Series B-IV had a Standard & Poor's rating of A.

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. The 2012 Series of refunding bonds were issued without an insurance policy.

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**ECONOMIC FACTORS THAT MAY AFFECT THE AUTHORITY**

The Authority is the fiscal agent of the West Virginia Infrastructure and Jobs Development Council (IJDC) and as such received notice on August 7, 2014, from Earl Ray Tomblin, Governor of the State of West Virginia, authorizing the issue of Infrastructure Excess Lottery Revenue Bonds of not more than \$120,000,000 in aggregate principal. The Authority expects to issue these bonds in October 2014.

There are several unknown factors that may affect the Authority, including changes in existing federal or State legislation, changes in environmental or drinking water system requirements, and financial 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."

**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](http://www.wvwda.org)).

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

## STATEMENT OF NET POSITION

June 30, 2014

**ASSETS**

## Current assets:

Cash and cash equivalents	\$ 10,223,306
Receivables:	
Revenue bonds, net of unamortized discount of \$49,346	6,521,241
Supplemental revenue bonds	572,511
Interest	3,337,451
Administrative fees	1,941
Due from other agencies	285,257
Total unrestricted current assets	<u>20,941,707</u>

## Restricted current assets:

Prepaid insurance	20,275
Investments	<u>1,532,021</u>
Total current assets	<u>22,494,003</u>

## Noncurrent assets:

Revenue bonds	13,260,385
Asset held on behalf of others	1,000,000
Investments	1,200,000
Capital assets, net	<u>7,532,093</u>
Total unrestricted noncurrent assets	<u>22,992,478</u>

## Restricted assets:

Cash and cash equivalents	16,245,231
Receivables:	
Revenue bonds, net of unamortized discount of \$1,027,701	197,755,790
Supplemental revenue bonds	6,514,668
Prepaid insurance	<u>502,102</u>
Total restricted noncurrent assets	<u>221,017,791</u>
Total assets	<u>\$ 266,504,272</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred loss on bond refundings	<u>\$ 11,005,887</u>
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(Continued)



## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

STATEMENT OF NET POSITION  
(Continued)

June 30, 2014

LIABILITIES

## Current liabilities:

Accounts payable	\$ 189,898
Current portion of revenue bonds payable, including unamortized net premium of \$502,262	8,377,262
Accrued interest payable	<u>1,729,115</u>
Total current liabilities	<u>10,296,275</u>

## Noncurrent liabilities:

Accrued employee benefits	235,900
Asset held on behalf of others	1,000,000
Liabilities payable from restricted assets:	
Noncurrent portion of revenue bonds payable, including unamortized net premium of \$7,243,812	<u>207,038,812</u>
Total noncurrent liabilities	<u>208,274,712</u>

Total liabilities	<u>\$ 218,570,987</u>
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NET POSITION

Restricted	25,301,262
Unrestricted	26,105,817
Investment in capital assets	<u>7,532,093</u>
Total net position	<u>\$ 58,939,172</u>

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 POSITION  
 Year Ended June 30, 2014

Operating revenues:	
Charges for services	\$ 13,905,688
Miscellaneous	<u>228,460</u>
Total operating revenues	<u>14,134,148</u>
Operating expenses:	
Depreciation and amortization	1,321,264
General and administrative	1,957,296
Bond issuance cost	<u>390,302</u>
Total operating expenses	<u>3,668,862</u>
Operating income	<u>10,465,286</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	256,560
Loss on disposal of capital assets	(2,567)
Interest expense	<u>(9,351,809)</u>
Total nonoperating expenses	<u>(9,097,816)</u>
Change in net position	1,367,470
Total net position, beginning of year	<u>57,571,702</u>
Total net position, end of year	<u>\$ 58,939,172</u>

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

## STATEMENT OF CASH FLOWS

Year Ended June 30, 2014

Cash flows from operating activities	
Receipts of principal on bonds receivable	\$ 8,027,447
Receipts of interest on bonds receivable	14,067,417
Receipts of administrative fees on bonds receivable	228,327
Receipts of reimbursements from other agencies	1,046,207
Disbursements from issuance of bonds receivable	(1,837,638)
Disbursements of general and administrative expense	(1,776,706)
Disbursements on behalf of employees	(513,736)
Disbursements on behalf of other agencies	<u>(1,131,682)</u>
Net cash provided by operating activities	<u>18,109,636</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(1,069,420)</u>
Cash flows from noncapital financing activities:	
Principal paid on revenue and refunding bonds	(50,610,000)
Proceeds from refunding bond issuance	43,091,442
Interest paid on revenue and refunding bonds	<u>(9,536,647)</u>
Net cash used in noncapital financing activities	<u>(17,055,205)</u>
Cash flows from investing activities:	
Investment earnings	<u>256,471</u>
Net increase in cash and cash equivalents	241,482
Cash and cash equivalents, beginning of year	<u>26,227,055</u>
Cash and cash equivalents, end of year	<u>\$ 26,468,537</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 10,465,286
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization expense	1,321,264
Changes in assets and liabilities:	
Due from other agencies	(85,475)
Supplemental revenue bonds receivable	575,995
Revenue bonds receivable	5,613,814
Accrued interest receivable	161,729
Administrative fees receivable	(133)
Accounts payable	42,751
Accrued employee benefits	<u>14,405</u>
Net cash provided by operating activities	<u>\$ 18,109,636</u>

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

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**1 - REPORTING ENTITY**

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

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

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

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in 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.

#### Bond Premiums, Discounts, and Issuance Costs

Bond premiums and discounts 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. Bond issuance costs are expensed as incurred.

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**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, 2014, the Authority is not liable to the federal government as a result of arbitrage.

Net Position

Net position is presented as unrestricted, restricted, or as investment in capital assets. Investment in capital assets consists of all capital assets, less accumulated depreciation. Restricted net position represent assets restricted for the repayment of bond proceeds or by bond covenants. All remaining net position is considered unrestricted. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, restricted resources are applied first.

Deferred Outflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The Authority's losses on bond refundings is a deferred charge on refunding that results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**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, 2014, the Authority had the following investments and maturities:

Type	Investment Maturities (in Years)			
	Fair Value	Less than 1	1-5	6-10
Repurchase Agreements	\$ 1,532,021	\$ -	\$ 1,532,021	\$ -
U.S. Treasury	1,200,000	-	-	1,200,000
Money Markets	26,155,498	26,155,498	-	-
	<u>\$28,887,519</u>	<u>\$26,155,498</u>	<u>\$ 1,532,021</u>	<u>\$ 1,200,000</u>

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**3 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)**Interest Rate Risk (Continued)

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.

Concentration of Credit Risk

As of June 30, 2014, the Authority had investment balances with the following issuers which are greater than or equal to 5 percent of the investment balance:

<u>Type</u>	<u>Issuer</u>	<u>Percentage of Investments</u>
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:

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**3 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)**Concentration of Credit Risk (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

The following table provides information on the credit ratings of the Authority's short-term investments as of June 30, 2014:

<u>Security Type</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Standard &amp; Poors</u>	<u>Fair Value</u>
Money Markets	AAAmf	Aaa-mf	AAAM	<u>\$ 26,155,498</u>

Additionally, at June 30, 2014, the Authority's investments in repurchase agreements includes underlying securities of \$887,857 in federal agency obligations backed by the full faith and credit of the United States and \$821,352 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 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: direct obligations of or obligations guaranteed by the United States of America, the State of West Virginia or any other state, provided that obligations of other states meet certain requirements, obligations of certain federal agencies, certain types of indebtedness of public agencies or municipalities, corporate indebtedness meeting certain requirements or any other debt security investment permitted with bond proceeds.



## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**3 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)**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 exceed the outstanding repurchase agreement by the margin specified in the respective repurchase agreement. As of June 30, 2014, the Authority held no repurchase agreements that were not fully collateralized.

Cash consisted of the following at June 30, 2014:

Operating cash on hand	\$	
Cash on deposit with State Treasurer		<u>313,039</u>
Total	\$	<u>313,039</u>

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, 2014, is as follows:

**Deposits:**

Cash and cash equivalents as reported on the Statement of Net Position	\$	10,223,306
Add: restricted cash and cash equivalents		16,245,231
Less: cash equivalents and restricted cash equivalents disclosed as investments		<u>(26,155,498)</u>
Total cash as disclosed in this Note	\$	<u>313,039</u>

**Investments:**

Investments as reported on the Statement of Net Position	\$	1,200,000
Add: restricted investments		1,532,021
Add: cash equivalents and restricted cash equivalents disclosed as investments		<u>26,155,498</u>
Total investments as disclosed in this Note	\$	<u>28,887,519</u>

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**4 - DUE FROM OTHER AGENCIES**

Certain agencies of the State were indebted to the Authority at June 30, 2014, in connection with services performed by the Authority on behalf of the agencies. Amounts due the Authority at June 30, 2014, are as follows:

West Virginia Infrastructure and Jobs Development Council, net	\$ 217,723
Department of Environmental Protection Clean Water State Revolving Fund	27,196
Bureau for Public Health Drinking Water Treatment Revolving Fund	<u>40,338</u>
	<u>\$ 285,257</u>

**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 (RLF) 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, 2014 is comprised of the following:

RLF Loans receivable	\$ 373,825
Service charges receivable	3,670
Allowance for uncollectible	<u>(377,495)</u>
	<u>\$ -</u>

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**6 - REVENUE BONDS RECEIVABLE**

As of June 30, 2014, the face value of revenue bonds of municipalities, public service districts and other political subdivisions purchased with proceeds from Water Development Revenue Bonds was \$204,934,165. Management's intentions are to hold such bonds until maturity; therefore, management believes the face amount of the bonds is fully collectible.

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

**7 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 514,684	\$ -	\$ -	\$ 514,684
Capital assets, being depreciated:				
Furniture and equipment	4,404,487	1,055,534	(71,066)	5,388,955
Building	<u>4,086,412</u>	<u>13,886</u>	<u>-</u>	<u>4,100,298</u>
Total capital assets, being depreciated	<u>8,490,899</u>	<u>1,069,420</u>	<u>(71,066)</u>	<u>9,489,253</u>
Less accumulated depreciation for:				
Furniture and equipment	1,382,436	959,659	(68,499)	2,273,596
Building	<u>95,893</u>	<u>102,355</u>	<u>-</u>	<u>198,248</u>
Total accumulated depreciation	<u>1,478,329</u>	<u>1,062,014</u>	<u>(68,499)</u>	<u>2,471,844</u>
Total capital assets, net	<u>\$ 7,527,254</u>	<u>\$ 7,406</u>	<u>\$ (2,567)</u>	<u>\$ 7,532,093</u>

**8 - DEBT REFUNDING**

On November 14, 2013, the Authority issued one series of refunding bonds which affected Loan Program II. Series 2013A-II bonds, issued for \$40,245,000, with interest rates ranging from 2% to 5%, were used to refund \$39,550,000 of the remaining balance of the Authority's outstanding Series 2003 B revenue bonds and \$3,510,000 of the remaining balance of the Authority's outstanding Series 2003 D revenue bonds which carried interest rates ranging from 4.85% to 5.25%. The proceeds of \$44,151,781 (including net original issue premium of \$3,056,427) and other funds available to the Authority were used to pay \$390,109 in underwriting fees and other issuance costs relating to the refunding bond issue, with the remaining proceeds used to purchase United States Treasury obligations. Those purchased securities were deposited in an irrevocable trust, with an escrow agent to provide for redemption of the bonds.

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**8 - DEBT REFUNDING (Continued)**

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of (\$824,064). This difference is being charged to interest expense through fiscal year 2030, along with \$2,402,775 of the unamortized balance of the prior refunding. The Authority completed the refunding to reduce its total debt service payments over the next 16 years by \$6,487,491, resulting in an economic gain (difference between the present values of the old and new debt service payments) of \$5,459,342.

**9 - REVENUE BONDS PAYABLE**

The following is a summary of the Authority's bond transactions for the year ended June 30, 2014:

Revenue bonds payable at June 30, 2013	\$ 218,035,000
Bonds issued during the year ended June 30, 2014	40,245,000
Bonds retired during the year ended June 30, 2014	(7,550,000)
Bonds refunded during the year ended June 30, 2014	<u>(43,060,000)</u>
Revenue bonds payable at June 30, 2014	<u>\$ 207,670,000</u>

Revenue and refunding bonds outstanding at June 30, 2014, were as follows:

<u>Series</u>	<u>Final Maturity</u>	<u>Interest Rates %</u>	<u>Balance</u>
2005 AIV	11/01/44	3.250-4.650	33,940,000
2005 AII	11/01/33	3.500-5.000	14,050,000
2005 BII	11/01/33	3.500-5.000	10,115,000
2005 BIV	11/01/44	3.750-5.125	10,335,000
2006 AII	11/01/39	3.750-5.000	34,950,000
2012 AI	11/01/25	2.000-3.000	3,905,000
2012 BI	11/01/26	3.000-4.500	14,995,000
2012 AII	11/01/23	2.000-3.000	5,545,000
2012 BII	11/01/33	2.000-4.000	14,050,000
2012 AIII	07/01/39	3.000-4.000	15,875,000
2012 BIII	07/01/40	2.000-3.750	9,665,000
2013 AII	11/1/2029	2.000-5.000	<u>40,245,000</u>
			<u>\$ 207,670,000</u>

Loan Program I includes Series 2012 AI and 2012 BI Water Development Revenue Refunding Bonds. Loan Program II includes Series 2005 AII, 2005 BII, 2006 AII, 2012 AII, 2012 BII, and 2013 AII Water Development Revenue Refunding Bonds. Loan Program III includes Series 2012 AIII and 2012 BIII Water Development Revenue Refunding Bonds. Loan Program IV includes Series 2005 AIV and 2005 BIV Water Development Revenue Bonds.

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)

## 9 - REVENUE BONDS PAYABLE (Continued)

Total future maturities of bond principal and interest on Authority indebtedness at June 30, 2014, are as follows:

Loan Program I	Principal	Interest	Total
11/01/14	\$ 1,435,000	\$ 682,500	\$ 2,117,500
11/01/15	1,480,000	638,775	2,118,775
11/01/16	1,525,000	593,700	2,118,700
11/01/17	1,570,000	539,775	2,109,775
11/01/18	1,635,000	476,363	2,111,363
	<u>7,645,000</u>	<u>2,931,113</u>	<u>10,576,113</u>
11/01/19-11/01/23	6,730,000	1,546,025	8,276,025
11/01/24-11/01/26	4,525,000	263,112	4,788,112
	<u>11,255,000</u>	<u>1,809,137</u>	<u>13,064,137</u>
	<u>\$ 18,900,000</u>	<u>\$ 4,740,250</u>	<u>\$ 23,640,250</u>
Loan Program II	Principal	Interest	Total
11/01/14	\$ 4,985,000	\$ 4,792,319	\$ 9,777,319
11/01/15	5,060,000	4,642,744	9,702,744
11/01/16	5,230,000	4,458,487	9,688,487
11/01/17	5,430,000	4,266,297	9,696,297
11/01/18	5,615,000	4,094,466	9,709,466
	<u>26,320,000</u>	<u>22,254,313</u>	<u>48,574,313</u>
11/01/19-11/01/23	29,030,000	17,205,794	46,235,794
11/01/24-11/01/28	31,085,000	10,942,634	42,027,634
11/01/29-11/01/33	21,780,000	4,812,762	26,592,762
11/01/34-11/01/38	9,140,000	1,581,250	10,721,250
11/01/39	1,600,000	40,000	1,640,000
	<u>92,635,000</u>	<u>34,582,440</u>	<u>127,217,440</u>
	<u>\$ 118,955,000</u>	<u>\$ 56,836,753</u>	<u>\$ 175,791,753</u>

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)

## 9 - REVENUE BONDS PAYABLE (Continued)

Loan Program III	Principal	Interest	Total
07/01/14	\$ 630,000	\$ 876,331	\$ 1,506,331
07/01/15	635,000	859,807	1,494,807
07/01/16	655,000	842,931	1,497,931
07/01/17	675,000	823,406	1,498,406
07/01/18	<u>700,000</u>	<u>799,756</u>	<u>1,499,756</u>
	<u>3,295,000</u>	<u>4,202,231</u>	<u>7,497,231</u>
07/01/19-07/01/23	3,885,000	3,595,159	7,480,159
07/01/24-07/01/28	4,575,000	2,900,531	7,475,531
07/01/29-07/01/33	5,380,000	2,059,463	7,439,463
07/01/34-07/01/38	6,440,000	990,000	7,430,000
07/01/39-07/01/40	<u>1,965,000</u>	<u>56,906</u>	<u>2,021,906</u>
	<u>22,245,000</u>	<u>9,602,059</u>	<u>31,847,059</u>
	<u>\$ 25,540,000</u>	<u>\$ 13,804,290</u>	<u>\$ 39,344,290</u>
Loan Program IV	Principal	Interest	Total
11/01/14	\$ 825,000	\$ 2,142,619	\$ 2,967,619
11/01/15	860,000	2,109,613	2,969,613
11/01/16	895,000	2,072,881	2,967,881
11/01/17	935,000	2,029,781	2,964,781
11/01/18	<u>980,000</u>	<u>1,981,509</u>	<u>2,961,509</u>
	<u>4,495,000</u>	<u>10,336,403</u>	<u>14,831,403</u>
11/01/19-11/01/23	5,665,000	9,122,581	14,787,581
11/11/24-11/01/28	6,655,000	7,637,228	14,292,228
11/01/29-11/01/33	8,100,000	5,861,019	13,961,019
11/01/34-11/01/38	8,260,000	3,752,747	12,012,747
11/01/39-11/01/43	9,015,000	1,694,075	10,709,075
11/01/44	<u>2,085,000</u>	<u>52,178</u>	<u>2,137,178</u>
	<u>39,780,000</u>	<u>28,119,828</u>	<u>67,899,828</u>
	<u>\$ 44,275,000</u>	<u>\$ 38,456,231</u>	<u>\$ 82,731,231</u>
Total all loan programs	\$ 207,670,000		
Add: unamortized net premium	<u>7,746,074</u>		
Total all programs, net	215,416,074		
Less: current portion	<u>8,377,262</u>		
Noncurrent portion	<u>\$ 207,038,812</u>		

# WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 9 - REVENUE BONDS PAYABLE (Continued)

The Authority has 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, 2014, there are \$2,925,000 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. Excluding current year refunding activities, principal and interest paid on bonds payable for the year ended June 30, 2014 was \$7,550,000 and \$9,316,224 respectively and principal payments and interest received on pledged notes receivable were \$8,078,625 and \$14,088,270, respectively, at June 30, 2014.

### 10 - 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

Covered employees are required to contribute 4.5% of their salary to the PERS. The Authority is required to contribute 14.5%, 14%, and 14.5% of covered employees' salaries to the PERS for the years ended June 30, 2014, 2013, and 2012, respectively. The contribution requirements of the Authority and plan members are established and may be amended by State statute. The Authority's contributions to PERS, required and made, for the years ended June 30, 2014, 2013 and 2012 were \$158,509 \$150,803, and \$136,348, respectively.

### 11 - 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:

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**11 - OTHER POSTEMPLOYMENT BENEFITS (Continued)**Plan Description (Continued)

Public Employees Insurance Agency  
601 57<sup>th</sup> 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 GAAP. 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, 2014, 2013, and 2012 were \$92, \$880, and \$16,199, respectively, and the billed ARC's were \$6,768, \$6,647, and \$171,529. The Authority's contributions represent 1.4%, 13.2%, and 9.4% of the ARC for the years then ended, respectively. These amounts were transferred to the OPEB Plan which resulted in accrued employee benefits of \$182,262 and \$175,586, respectively, which are included in the Authority's liabilities as of June 30, 2014 and 2013.

**12 - GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the year ended June 30, 2014, were as follows:

Personal services	\$ 528,141
Legal	105,641
Professional	493,323
Trustee	51,194
Employee benefits	100,537
Public employees insurance	43,632
Office supplies/printing	65,357
Advertising	5,253
Repairs and maintenance	167,892
Travel	30,945
Utilities	29,661
Telecommunications	54,787
Vehicle	4,656
Payroll taxes	8,009
Computer supplies	163,359
Janitorial	30,000
Miscellaneous	38,379
Rental	13,955
Administrative	2,531
Insurance	3,088
Training and development	<u>16,956</u>
	<u>\$ 1,957,296</u>



## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**13 - 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 to employees and health coverage for its employees in exchange for the payment of premiums to a commercial insurance provider and WVPEIA. Accordingly, the Authority has transferred its risk related to job-related injuries and health coverage for employees.

The Authority obtained coverage for general liability, property damage, business interruption, errors and omissions, and natural disasters. from the West Virginia Board of Risk and Insurance Management in exchange for an annual premium. There were no changes in coverage or claims in excess of coverage for the year ended June 30, 2014.

**14 - NEW ACCOUNTING PRONOUNCEMENTS**

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will require the Authority to record its 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 this statement will have on its financial statements.

**15 - SEGMENT INFORMATION**

The segment information for the Authority is comprised of the following segments:

Loan Program I includes Series 2012 AI and 2012 BI Water Development Revenue Refunding Bonds. Loan Program II includes Series 2005 AII, 2005 BII, 2006 AII, 2012 AII, 2012 BII, and 2013 AII Water Development Revenue Refunding Bonds. Loan Program III includes Series 2012 AIII and 2012 BIII Water Development Revenue Refunding Bonds. Loan Program IV includes Series 2005 AIV and 2005 BIV Water Development Revenue Bonds.

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)

## 15 - SEGMENT INFORMATION (Continued)

<u>ASSETS</u>	<u>Loan Program I</u>	<u>Loan Program II</u>	<u>Loan Program III</u>
Current - unrestricted	\$ 1,609,478	\$ 5,758,149	\$ 570,204
Noncurrent - unrestricted	-	-	-
Restricted - current and noncurrent	21,222,507	123,217,032	27,180,019
Capital assets, net	-	-	-
Total assets	<u>\$ 22,831,985</u>	<u>\$ 128,975,181</u>	<u>\$ 27,750,223</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred loss on bond refundings	<u>\$ 3,114,212</u>	<u>\$ 7,502,383</u>	<u>\$ 389,292</u>
<u>LIABILITIES</u>			
Current	\$ 1,736,412	\$ 6,070,999	\$ 1,083,263
Long-term	19,531,836	117,974,366	25,174,301
Total liabilities	<u>21,268,248</u>	<u>124,045,365</u>	<u>26,257,564</u>
<u>NET POSITION</u>			
Restricted	4,804,883	12,745,049	2,395,010
Unrestricted	(126,934)	(312,850)	(513,059)
Investment in capital assets	-	-	-
Total net position	<u>\$ 4,677,949</u>	<u>\$ 12,432,199</u>	<u>\$ 1,881,951</u>
<u>OPERATING REVENUE</u>			
Charges for services and miscellaneous revenue	\$ 1,690,506	\$ 7,844,287	\$ 1,591,321
<u>OPERATING EXPENSES</u>			
Depreciation and amortization	-	250,936	-
General and administrative	-	22	-
Bond issuance cost	-	390,302	-
Allocation of general and administrative	167,424	973,529	210,455
<u>OPERATING INCOME</u>	<u>1,523,082</u>	<u>6,229,498</u>	<u>1,380,866</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Interest and investment revenue	302	101,203	253
Loss on disposal of assets	-	-	-
Interest expense	(788,119)	(5,537,435)	(888,863)
Transfers (net)	(628,380)	(172,110)	210,457
Change in net position	106,885	621,156	702,713
Beginning net position, as reclassified	<u>4,571,064</u>	<u>11,811,043</u>	<u>1,179,238</u>
Ending net position	<u>\$ 4,677,949</u>	<u>\$ 12,432,199</u>	<u>\$ 1,881,951</u>
Net cash provided by (used in):			
Operating activities	\$ 2,058,199	\$ 9,822,440	\$ 1,976,099
Capital and related financing activities	-	-	-
Noncapital financing activities	(2,221,450)	(10,697,978)	(1,167,455)
Investing activities	303	101,203	246
Beginning cash and cash equivalents, as reclassified	<u>2,788,705</u>	<u>10,729,888</u>	<u>2,837,207</u>
Ending cash and cash equivalents	<u>\$ 2,625,757</u>	<u>\$ 9,955,553</u>	<u>\$ 3,646,097</u>

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)

## 15 - SEGMENT INFORMATION (Continued)

<u>ASSETS</u>	<u>Loan Program IV</u>	<u>Supplemental</u>	<u>Total</u>
Current - unrestricted	\$ 1,421,411	\$ 11,582,465	\$ 20,941,707
Noncurrent - unrestricted	-	15,460,385	15,460,385
Restricted - current and noncurrent	44,435,861	6,514,668	222,570,087
Capital assets - net	-	7,532,093	7,532,093
Total assets	\$ 45,857,272	\$ 41,089,611	\$ 266,504,272
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred loss on bond refundings	\$ -	\$ -	\$ 11,005,887
<u>LIABILITIES</u>			
Current	\$ 1,215,703	\$ 189,898	\$ 10,296,275
Long-term	44,358,309	1,235,900	208,274,712
Total liabilities	45,574,012	1,425,798	218,570,987
<u>NET POSITION</u>			
Restricted	77,552	5,278,768	25,301,262
Unrestricted	205,708	26,852,952	26,105,817
Investment in capital assets	-	7,532,093	7,532,093
Total net position	\$ 283,260	\$ 39,663,813	\$ 58,939,172
<u>OPERATING REVENUE</u>			
Charges for services and miscellaneous revenue	\$ 2,303,628	\$ 704,406	\$ 14,134,148
<u>OPERATING EXPENSES</u>			
Depreciation and amortization	8,314	1,062,014	1,321,264
General and administrative	-	1,957,274	1,957,296
Bond issuance cost	-	-	390,302
Allocation of general and administrative	379,269	(1,730,677)	-
<u>OPERATING INCOME</u>	1,916,045	(584,205)	10,465,286
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Interest and investment revenue	40	154,762	256,560
Loss on disposal of assets	-	(2,567)	(2,567)
Interest expense	(2,137,392)	-	(9,351,809)
Transfers (net)	250,382	339,651	
Change in net position	29,075	(92,359)	1,367,470
Beginning net position, as reclassified	254,185	39,756,172	57,571,702
Ending net position	\$ 283,260	\$ 39,663,813	\$ 58,939,172
Net cash provided by (used in):			
Operating activities	\$ 2,939,321	\$ 1,313,577	\$ 18,109,636
Capital and related financing activities	-	(1,069,420)	(1,069,420)
Noncapital financing activities	(2,968,322)	-	(17,055,205)
Investing activities	40	154,679	256,471
Beginning cash and cash equivalents, as reclassified	151,257	9,719,998	26,227,055
Ending cash and cash equivalents	\$ 122,296	\$ 10,118,834	\$ 26,468,537

**INDEPENDENT AUDITOR'S 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 in accordance with the 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, the financial statements of the West Virginia Water Development Authority (the Authority), as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 6, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 Fund's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

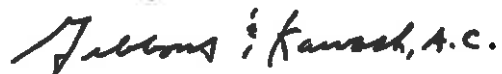
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charleston, West Virginia  
October 6, 2014



**WEST VIRGINIA**  
**Water Development Authority**  
*Celebrating 40 Years of Service 1974 - 2014*

# 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, 2014**

Audited Financial Statements  
WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND  
Year Ended June 30, 2014

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Fund Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements	10-17
Accompanying Information:	
Schedules of Administrative Fees Activity	18
Independent Auditor's Report on Compliance for a Federal Program and Report on Internal Control over Compliance when using the Program- Specific Audit Option under OMB Circular A-133 Requirements	19-20



## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia Drinking Water Treatment Revolving Fund (the Fund), a component unit of the State of West Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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; 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### 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, 2014, and the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Fund's basic financial statements. The accompanying information as of and for the year ended June 30, 2014, 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 basic financial statements.

The accompanying information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Charleston, West Virginia  
October 6, 2014

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

### 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, 2014. Please read it in conjunction with the Fund's financial statements, which begin on page 7.

#### FINANCIAL HIGHLIGHTS

- Under the former 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. 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. The ARRA principal forgiveness loans are written off quarterly according to their respective debt service schedules. A total of \$1.766 million in ARRA principal forgiveness loans were written off against the existing allowance for principal forgiveness during fiscal year 2014.
- 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 the EPA principal forgiveness loans. Total principal forgiveness loans disbursed during the fiscal year totaled \$3.22 million. The Fund's change in net position, therefore, consists of total revenues, less operating expenses and capital grants and contributions.
- The Fund's assets increased by \$4,676,051 or about 3%. This is largely due to an increase in the volume of loans issued and funds disbursed during the fiscal year. The Fund's liabilities increased \$41,889. This is the result of two quarterly payments due to the West Virginia Water Development Authority for administrative and general expenses which remained outstanding at the end of the fiscal year. The Fund's net position increased by \$4,634,162 or approximately 3%.
- The Fund's revenues increased by \$214,339 or approximately 21%. This is primarily due to an increase in administrative fees of \$65,147, as well as an increase in interest on loans of \$158,455. There was a decrease in the user fee of \$4,036. The overall increase in revenues is due to an increase in loans closed over the past three plus years. The investment earnings decreased by \$5,227 due to an increase in cash outflows to fund projects.
- 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 \$8,332,097 from the prior year.
- Ten (10) new loans were closed during the current year. Also, there are fifteen (15) additional loans that are still under construction that were closed in prior years, nine (9) of which are substantially complete.

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
(Unaudited)

## USING THIS REPORT

This report consists of a series of financial statements. The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Fund Net Position report the Fund's net position and changes in them. The Fund's net position, 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 position is one indicator of whether its financial health is improving or deteriorating.

## THE FUND AS A WHOLE

Assets of the Fund increased \$4,676,052 or about 3%. The Fund has \$41,889 in liabilities as of the current fiscal year and no liabilities in the prior fiscal year ended June 30. The increase in assets approximates the increase in the Fund's net position. Our analysis that follows focuses on the net position (Table 1) and changes in net position (Table 2) of the Fund's activities.

**Table 1**  
**Statements of Net Position**

	2014	2013
<b>Assets</b>		
Current assets	\$ 28,238,059	\$ 30,480,195
Loans receivable, less current maturities, net	<u>110,566,694</u>	<u>103,648,507</u>
<b>Total assets</b>	<u>\$ 138,804,753</u>	<u>\$ 134,128,702</u>
<b>Liabilities</b>		
Current liabilities	\$ 41,889	\$ -
<b>Net position</b>		
Restricted	<u>\$ 138,762,864</u>	<u>\$ 134,128,702</u>

**Table 2**  
**Changes in Net Position**

	2014	2013
<b>Revenues:</b>		
<b>Operating revenues:</b>		
Administrative fees	\$ 527,957	\$ 462,810
Interest on loans	689,430	530,975
User fees	<u>7,170</u>	<u>11,206</u>
Total operating revenues	1,224,557	1,004,991
<b>Investment earnings</b>	<u>25,876</u>	<u>31,103</u>
Total revenues	1,250,433	1,036,094
<b>Operating expenses</b>	<u>(3,287,223)</u>	<u>(3,284,955)</u>
Loss before capital grants and contributions	<u>(2,036,790)</u>	<u>(2,248,861)</u>
Capital grants and contributions	<u>6,670,952</u>	<u>15,003,049</u>
Increase in net position	<u>4,634,162</u>	<u>12,754,188</u>

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**(Unaudited)**

**THE FUND AS A WHOLE (Continued)**

Most of the increase in the Fund's assets and net position is attributable to both the capital grants and contributions received in the current year from the EPA in the amount of \$4,986,752 and the State match through the West Virginia Infrastructure and Jobs Development Council in the amount of \$1,684,200 totaling \$6,670,952. Of the \$4,986,752 received from the EPA in the current year, \$1,105,230 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 \$1,684,200 received from the State during the current year, \$300,845 remains available. In addition, \$1,889,035 in cumulative investment earnings on current and previous State match amounts combine to total \$2,189,880, 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."

The Fund's liabilities are attributable to the last two quarters of administrative expenses that were payable at the end of the fiscal year.

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 \$8,185,040 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 \$835,319 from prior year. Ten (10) loans closed during the current year, totaling \$9,919,877. Three (3) loans closed in the second quarter, four (4) closed in the third quarter, and three (3) closed in the fourth quarter.

Total revenues, including operating revenues and investment earnings totaled \$1,250,433. This was an increase of \$214,339 from prior year. This was attributed to an increase in administrative fees of \$65,147 over the prior year as well as an increase in interest on loans of \$158,455 over the prior year and a decrease in investment earnings of \$5,227 as well as a decrease in user fees of \$4,036 over the prior year.

The ten loans that closed in the current year totaled \$9,919,877. The amounts disbursed for these loans totaled \$1,714,038 of which \$370,385 represented federal funds with \$269,169 of those funds having principal forgiveness features and \$107,358 represented state match, with \$78,020 of those funds having principal forgiveness features. \$1,236,295 represented proceeds from loan repayments with \$213,549 of those funds having principal forgiveness features. The amount disbursed during the current year for loans closed in prior years totaled \$13,966,649 of which \$4,616,367 represented federal funds with \$836,061 of those funds having principal forgiveness features, \$1,337,980 represented State match with \$242,272 of those funds having principal forgiveness features, and \$8,012,302 represented proceeds from loan repayments with \$1,544,676 having principal forgiveness features. The sum of all disbursements for the years ended June 30, 2014 and 2013 was \$15,680,687 and \$19,310,596, respectively.

**COMMITMENTS AND PENDING APPLICATION FOR EPA GRANT**

As of June 30, 2014, the Fund had outstanding binding commitments to loan to qualified recipients of \$5.1 million, and an \$1,039,408 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, 2014, the Fund has \$19,899,225 in cash equivalents available for these projects. Additionally, the Fund has \$370,074 of cash equivalents from user fees obtained from a State Settlement with the West Virginia American Water Company in 2004. These funds will be used for future drinking water infrastructure projects.

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**(Unaudited)**

**COMMITMENTS AND PENDING APPLICATION FOR EPA GRANT (Continued)**

The West Virginia Bureau for Public Health submitted an application to the EPA for a grant for the Fund for the fiscal year 2015 grant period. The application was approved in August 2014, and resulted in an award from the EPA of \$6,701,750. The \$1,769,000 State match has been committed to the Fund in order to secure the federal funds. The total of \$8,470,750, awarded to the Fund, will be used to provide no-interest or low-interest traditional or principal forgiveness featured loans to assist in financing approved drinking water infrastructure projects, including projects approved as of June 30, 2014, as noted above.

The EPA Capitalization Grant awarded but not yet disbursed for fiscal year 2014 contains a provision which requires that not less than twenty (20) and not more than (30) percent of each grant be provided to eligible water system loan recipients in the form of grants, negative interest, or principal forgiveness. The potential fiscal year 2015 grant not yet awarded will contain the same provision. 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](http://www.wvwda.org)).

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

STATEMENT OF NET POSITION

June 30, 2014

**ASSETS**

Current assets:	
Cash and cash equivalents	\$ 20,269,299
Administrative fees receivable	47,657
Accrued interest receivable	62,058
Current maturities of loans receivable	7,859,045
Total current assets	<u>28,238,059</u>
 Loans receivable, less current maturities	
(net of principal forgiveness of \$19,914,811)	<u>110,566,694</u>
 Total assets	<u>\$ 138,804,753</u>

**LIABILITIES**

Current liabilities:	
Accounts payable, related party	<u>\$ 41,889</u>

**NET POSITION**

Net position, restricted	<u>\$ 138,762,864</u>
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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 POSITION

Year Ended June 30, 2014

Operating revenues:	
Administrative fees	\$ 527,957
Interest on loans	689,430
User fees	7,170
	<u>1,224,557</u>
Operating expense:	
Administrative expense	63,480
Grant expense - principal forgiveness	3,223,743
	<u>3,287,223</u>
Operating loss	(2,062,666)
Nonoperating revenues:	
Investment income	<u>25,876</u>
Loss before capital grants and contributions	<u>(2,036,790)</u>
Capital grants and contributions:	
U.S. Environmental Protection Agency	4,986,752
State of West Virginia	1,684,200
	<u>6,670,952</u>
Increase in net position	4,634,162
Net position, beginning of year	<u>134,128,702</u>
Net position, end of year	<u>\$ 138,762,864</u>

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, 2014

Operating activities:	
Cash payments for:	
Loans originated	\$ (15,680,687)
Administrative expenses	(21,591)
Cash receipts from:	
Principal repayments	4,823,928
Administrative fees	521,085
Interest on loans	688,379
User fees	10,193
Net cash and cash equivalents used in operating activities	<u>(9,658,693)</u>
Capital and related financing activities:	
Capital grants and contributions received:	
U.S. Environmental Protection Agency	4,986,752
State of West Virginia, Infrastructure and Jobs Development Council	1,684,200
Net cash provided by capital and related financing activities	<u>6,670,952</u>
Investing activities:	
Investment income	<u>25,876</u>
Net decrease in cash and cash equivalents	(2,961,865)
Cash and cash equivalents, beginning of year	<u>23,231,164</u>
Cash and cash equivalents, end of year	<u>\$ 20,269,299</u>
Reconciliation of operating loss to net cash and cash equivalents used in operating activities:	
Operating loss	\$ (2,062,666)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities:	
Increase in loans receivable	(7,633,016)
Increase in administrative fees receivable	(6,872)
Increase in accrued interest receivable	(1,051)
Decrease in user fees receivable	3,023
Increase in accounts payable, related party	<u>41,889</u>
Net cash and cash equivalents used in operating activities	<u>\$ (9,658,693)</u>
Supplemental disclosure of noncash activities:	
New loans originated with principal forgiveness features	<u>\$ 3,223,743</u>

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 (the 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, 2014, Congress has authorized the EPA to award \$168,003,782 in capitalization grants to the State, of which \$127,323,433 is allocated to the fund. The state is required to contribute \$29,700,757 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 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 former 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 program requirements allowing for principal forgiveness, and as such a 100% principal forgiveness valuation has been made for certain of these program loans through the year ended June 30, 2014.

The Fund also issues loans eligible for principal forgiveness from funds provided under EPA grants received by the Fund. These loans, which are issued to certain local government agencies or other eligible water providers will be forgiven on the 30<sup>th</sup> 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 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, 2014, with the exception of 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.

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 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.

##### Net Position

Net position is reported as restricted. Restricted net position is the result of constraints placed on its 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 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, 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):

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Commercial paper	P-1	A-1+	\$ 234,951	11.99 %
	P-1	A-1	772,107	39.40
Corporate bonds and notes	Aa3	AA-	20,000	1.02
U.S. agency bonds	Aaa	AA+	82,765	4.22
U.S. Treasury notes*	Aaa	AA+	185,065	9.45
U.S. Treasury bills*	P-1	A-1+	104,995	5.36
Negotiable certificates of deposit	NR	AA-	10,000	0.51
	P-1	A-1+	28,000	1.43
	P-1	A-1	144,000	7.35
U.S. agency discount notes	P-1	A-1+	207,484	10.59
Money market funds	Aaa	AAAm	39	0.00
Repurchase agreements (underlying securities):				
U.S. treasury notes*	Aaa	AA+	93,284	4.76
U.S. agency notes	Aaa	AA+	76,900	3.92
			<u>\$ 1,959,590</u>	<u>100.00 %</u>

NR - Not rated by rating agency

\* 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.

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS  
(Continued)**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, except for government floating rate notes, which can be up to 762 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

<u>Security Type</u>	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 170,184	1
U.S. treasury notes	185,065	47
U.S. treasury bills	104,995	44
Commercial paper	1,007,058	33
Certificates of deposit	182,000	51
U.S. agency discount notes	207,484	38
Corporate bonds and notes	20,000	17
U.S. agency bonds	82,765	74
Money market funds	39	1
	<u>\$ 1,959,590</u>	<u>36</u>

**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, 2014, loans receivable consisted of loans to local governmental agencies (LGA's) or other eligible water providers for qualifying projects which comply with the Act. The Fund issued \$3,223,743 in loans whose principal was forgiven during the year ended June 2014 in accordance with funding covenants provided by the EPA. Accordingly a valuation account for expected principal forgiveness has been recorded as of June 30, 2014 for the total allotment of anticipated qualifying principal forgiveness loans. During the year, the Fund disbursed \$12,456,944 of loans which are required to be repaid in accordance with the loan agreements.

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS  
(Continued)**4 - LOANS RECEIVABLE (Continued)**

Loans receivable consisted of the following at June 30, 2014:

Loans without principal forgiveness features	\$ 118,425,739
ARRA loans	13,258,811
EPA principal forgiveness loans (original principal of \$9,347,755)	<u>6,656,000</u>
Total loans outstanding	138,340,550
Less:	
Allowance for principal forgiveness programs	19,914,811
Current maturities	<u>7,859,045</u>
Total loans receivable, net of current maturities and principal forgiveness	<u>\$ 110,566,694</u>

Non-principal forgiveness loans mature at various intervals through December 2045, ARRA and EPA principal forgiveness loans will be forgiven over various periods through June 2049. The scheduled principal payments on principal forgiveness loans maturing in subsequent years and annual principal forgiveness in future years are as follows at June 30:

2015	\$ 7,859,045
2016	8,181,377
2017	8,277,243
2018	8,315,321
2019	8,360,641
Thereafter	<u>107,656,582</u>
	148,650,209
Less loans closed but not disbursed at June 30, 2014	<u>10,309,659</u>
	138,340,550
Less current maturities	<u>7,859,045</u>
	130,481,505
Less allowance for principal forgiveness programs	<u>19,914,811</u>
Total loans receivable, net of current maturities and principal forgiveness	<u>\$ 110,566,694</u>

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS  
(Continued)**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, 2014, the cumulative amounts awarded to the Fund from the EPA and the contributed matching funds from the State were as follows:

<u>Effective Award Date</u>	<u>EPA Grant</u>	<u>State Match</u>
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
1/20/2012*	150,000	-
9/20/2012	6,224,032	1,831,257
7/1/2013	5,810,490	1,684,200
Total	<u>\$ 127,323,433</u>	<u>\$ 29,700,757</u>

\*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, 2014:

<u>Cumulative Through</u>	<u>Federal</u>	<u>State</u>	<u>Total Capital Grants and Contributions</u>
June 30, 2014	<u>\$ 126,284,025</u>	<u>\$ 29,700,757</u>	<u>\$ 155,984,782</u>



# WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 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, 2014:

<u>Local Governmental Agency</u>	<u>Commitment Date</u>	<u>Amount Committed by the Fund</u>
Preston County PSD #4 (Hudson)	2/17/2014	\$ 3,607,427
Fenwick Mountain PSD	4/25/2014	<u>1,459,000</u>
Total		<u>\$ 5,066,427</u>

In addition, the Fund has awarded amounts not yet disbursed of approximately \$10,309,659 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, 2014.

### 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.

### 9 - TRANSACTIONS WITH STATE OF WEST VIRGINIA AGENCIES

The Authority pays for and is reimbursed for certain administrative expenses (including salaries and legal expenses) on behalf of the Fund. As of June 30, 2014, the Fund had incurred and recognized \$63,480 in administrative expenses of which \$41,889 remained payable to the Authority at June 30, 2014.

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

## SCHEDULES OF ADMINISTRATIVE FEES ACTIVITY

June 30, 2014

## Schedule of assets and fund net position

## Assets:

Cash and cash equivalents	\$ 3,555,911
Administrative fees receivable	<u>47,657</u>
Total assets	<u>\$ 3,603,568</u>

## Liabilities:

Accounts payable, related party	<u>\$ 41,889</u>
---------------------------------	------------------

## Restricted fund net position

\$ 3,561,679

## Schedule of administrative fees activity in fund net position

## Revenues:

Administrative fees	\$ 527,957
Interest on investments	<u>4,077</u>
Total revenues	532,034

## Expenses:

Administrative expense	<u>63,480</u>
Net income	468,554

## Restricted fund net position - administrative fees, beginning of year

3,093,125

## Restricted fund net position - administrative fees, end of year

\$ 3,561,679

## Schedule of cash flows

## Net income

\$ 468,554

Adjustments to reconcile net income to net cash provided  
by administrative fees activity:

Increase in administrative fees receivable	(6,872)
Increase in accounts payable, related party	<u>41,889</u>

Net cash provided by administrative fees activity 503,571

## Cash and cash equivalents, beginning of year

3,052,340

## Cash and cash equivalents, end of year

\$ 3,555,911

See Independent Auditor's Report.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR A FEDERAL  
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE WHEN  
USING THE PROGRAM-SPECIFIC AUDIT OPTION TO SATISFY OMB CIRCULAR  
A-133 REQUIREMENTS**

To the West Virginia Bureau for Public Health  
And West Virginia Drinking Water Treatment Revolving Fund  
Charleston, West Virginia

**Report on Compliance for the Capitalization Grants for Drinking Water State Revolving Funds**

We have audited the West Virginia Drinking Water Treatment Revolving Fund (the Fund's) compliance with the types of compliance requirements described in OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on the Capitalization Grants for Drinking Water State Revolving Funds program for the year ended June 30, 2014.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the Capitalization Grants for Drinking Water State Revolving Funds program.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Fund's Capitalization Grants for Drinking Water State Revolving Funds program based on our audit of the types of compliance requirements referred to above.

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 Capitalization Grants for Drinking Water State Revolving Funds program 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 on compliance for the Fund's Capitalization Grants for Drinking Water State Revolving Funds program. However, our audit does not provide a legal determination of the Fund's compliance.

***Opinion***

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 program for the year ended June 30, 2014.



## Report on Internal Control Over Compliance

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Fund's internal control over compliance with the types of requirements that could have a direct and material effect on its Capitalization Grants for Drinking Water State Revolving Funds program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its Capitalization Grants for Drinking Water State Revolving Funds program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Charleston, West Virginia  
October 6, 2014



**WEST VIRGINIA**  
**Water Development Authority**  
*Celebrating 40 Years of Service 1974 - 2014*

## **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, 2014**

Audited Financial Statements  
WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL  
Year Ended June 30, 2014

<u>TABLE OF CONTENTS</u>	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Balance Sheet - Governmental Fund	12
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	13
Statement of Net Position - Proprietary Fund	14
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund	15
Statement of Cash Flows - Proprietary Fund	16
Notes to Financial Statements	17-33
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34-35

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

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, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



**Other Matters****Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Council's internal control over financial reporting and compliance.

Charleston, West Virginia  
October 6, 2014

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL  
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, 2014. Please read it in conjunction with the Council's financial statements, which begin on page 10.

## **USING THIS REPORT**

This report consists of a series of fund level and government-wide financial statements. The Statement of Net Position and Statement of Activities report the net position and activities of 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 governmental fund balance and the respective changes in it. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund present the proprietary fund net position and the respective changes in net position. The Council's net position, which is the difference between assets, deferred outflows of resources and liabilities, and the Council's fund balance which reflects governmental fund assets represent ways to measure the Council's financial health or financial position. Over time, increases or decreases in the Council's net position and fund balance are indicators of whether its financial health is improving or deteriorating.

## **FINANCIAL HIGHLIGHTS**

### **Business Type Activities:**

- Total assets increased \$11.3 million from \$786.3 million to \$797.6 million
- Deferred outflows decreased \$115 thousand from \$2.50 million to \$2.38 million
- Total liabilities decreased \$3 million from \$117 million to \$114 million
- Net position increased \$14 million from \$672 million to \$686 million

### **Governmental Activities:**

- Total assets decreased \$27 thousand from \$129 thousand to \$102 thousand
- Deferred outflows decreased \$251 thousand from \$2.81 million to \$2.56 million
- Total liabilities decreased \$12 million from \$234 million to \$222 million
- The deficiency in net position decreased \$12 million from (\$232) million to (\$220) million

### **Government Wide:**

- Total assets increased \$11.3 million from \$786.4 million to \$797.7 million
- Deferred outflows decreased \$366 thousand from \$5.31 million to \$4.94 million
- Total liabilities decreased \$14 million from \$351 million to \$337 million
- Net position increased by \$26 million from \$440 million to \$466 million

### **Other Highlights:**

- 19 water and waste water project and economic development loans were closed for the year ended June 30, 2014 on behalf of the Council
- 21 water and wastewater grants were closed for the year ended June 30, 2014 on behalf of the Council

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued  
(Unaudited)**

**FINANCIAL ANALYSIS OF THE COUNCIL AS A WHOLE**

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

**Table 1  
Net Position**

	2014	2014	2013	2013
	Business Type Activities	Governmental Type Activities	Business Type Activities	Governmental Type Activities
<b>Assets</b>				
Cash equivalents	\$ 209,000,313	\$ 20	\$ 201,973,153	\$ 18,898
Investments	102,858,563		105,263,720	
Assets held by others	1,000,000		1,000,000	
Loans receivable, net	482,186,809		475,857,386	
Other	2,556,715	101,503	2,187,877	109,733
<b>Total assets</b>	<b>\$ 797,602,400</b>	<b>\$ 101,523</b>	<b>\$ 786,282,136</b>	<b>\$ 128,631</b>
<b>Deferred outflows of resources</b>				
Deferred loss on refunding	\$ 2,383,069	\$ 2,555,853	\$ 2,498,008	\$ 2,807,261
<b>Total deferred outflows</b>	<b>\$ 2,383,069</b>	<b>\$ 2,555,853</b>	<b>\$ 2,498,008</b>	<b>\$ 2,807,261</b>
<b>LIABILITIES</b>				
Bond payable, net	\$ 112,734,894	\$ 221,449,781	\$ 115,496,747	\$ 233,235,557
Other	1,439,625	1,180,276	1,361,843	1,241,148
<b>Total liabilities</b>	<b>\$ 114,174,519</b>	<b>\$ 222,630,057</b>	<b>\$ 116,858,590</b>	<b>\$ 234,476,705</b>
<b>NET POSITION</b>				
Restricted	\$ 641,279,454	\$ 20	\$ 628,787,330	\$ 18,898
Unrestricted (deficit)	44,531,496	(219,972,701)	43,134,224	(231,559,711)
<b>Total net position</b>	<b>\$ 685,810,950</b>	<b>\$ (219,972,681)</b>	<b>\$ 671,921,554</b>	<b>\$ (231,540,813)</b>

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued  
(Unaudited)**

**FINANCIAL ANALYSIS OF THE COUNCIL AS A WHOLE (Continued)**

**Table 2  
Changes in Net Position**

	2014	2014	2013	2013
	Business Type	Governmental	Business Type	Governmental
	Activities	Type Activities	Activities	Type Activities
<b>Revenues</b>				
<b>Program revenues</b>				
Charges for services	\$ 3,076,311	\$ -	\$ 2,771,441	\$ -
<b>General revenues</b>				
Miscellaneous revenues	100,000	-	5,550	-
Intergovernmental	46,000,000	23,000,000	46,000,000	24,000,000
Investment earnings	264,601	6,755	433,764	10,878
Total general revenues	46,364,601	23,006,755	46,439,314	24,010,878
Total revenues	49,440,912	23,006,755	49,210,755	24,010,878
<b>Expenses</b>				
General & administrative	1,023,302	-	792,690	-
Interest on long-term debt	4,899,562	11,182,265	4,900,012	11,663,527
Bond issue costs	-	-	220,370	-
Infrastructure & economic development	29,360,010	-	16,633,523	-
Loss on uncollectible loans	525,000	-	1,115,028	-
Transfers (in) out	(256,358)	256,358	(1,244,302)	1,244,302
Total expenses	35,551,516	11,438,623	22,417,321	12,907,829
Changes in net position	13,889,396	11,568,132	26,793,434	11,103,049
Beginning net position (deficit)	671,921,554	(231,540,813)	645,128,120	(242,643,862)
Ending net position (deficit)	\$ 685,810,950	\$ (219,972,681)	\$ 671,921,554	\$ (231,540,813)

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL  
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 \$7 million, from \$202 million last year to \$209 million at the end of the current year. The increase in cash was the result of receiving the repayment of one large loan as well as two Guaranteed Investment Contracts (GIC's) maturing and converting to prime cash obligations. In addition, the mineral severance tax, interest on loans, principal repayments of loans and investment earnings all contributed to the increase.

Offsetting these increases were expenses for grants and loans, contributions of the State Matching funds 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** decreased by \$2 million as a result of two GIC's maturing during this year which totaled \$2.3 million.

**Loans receivable** increased \$6 million. This increase was primarily the combined effect of disbursements of new and prior year loan funds to projects of approximately \$27 million, less repayments of principal on loans of approximately \$21 million.

**Deferred outflows of resources** decreased \$366 thousand due to the amortization of the loss on refunding.

**Total liabilities** decreased \$14.5 million relating mostly to a net decrease in bonds payable from the previous year. Current year principal repayments on outstanding debt were approximately \$14 million.

**Restrictions of net position** are the result of constraints placed on the use of net position which have been imposed externally through debt covenants and by law through enabling legislation. Restricted net position increased approximately \$12 million during the current year. That increase can be explained primarily as follows: mineral severance tax revenue of \$23 million and excess lottery appropriations of \$46 million. Also, included in the increase were loan repayments of principal and interest totaling \$23 million. Offsetting the increases were disbursements of \$23 million for grants awarded in current and prior years. \$23 million of principal and interest expense related to revenue and general obligation bonds, \$6 million for the State Match of the federally sponsored Clean Water State Revolving Fund and the Drinking Water Treatment Revolving Fund, and loan disbursements of \$27 million. 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 Position** for business type activities as of June 30, 2014 is \$44.5 million, a decrease from the prior year of approximately \$1 million. This is due to general and administrative expenses of \$1 million.

**Fund Balance/Government-wide Net Position** The only activity reported in the governmental fund relates to future payments of the General Obligation Bonds which mature through fiscal year 2027. See Note 9 in the Notes to the Financial Statements for further detail. Although the governmental fund reports a deficit, \$23 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 position as of June 30, 2014, is \$466 million.

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued  
(Unaudited)**

**FINANCIAL ANALYSIS OF THE COUNCIL AS A WHOLE (Continued)**

**Charges for services** consist of interest earnings on loans to projects which increased during the current year by approximately \$305 thousand. Although loans receivable had a net increase of \$6 million during the current year, most of the new loans to projects are full term 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 \$23 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 2014. 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 decreased \$173 thousand from the prior year. 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 approximately \$702 thousand. The decrease is due to lower interest rates on revenue bonds resulting from the refunding of the 2003 Series A bonds in the previous fiscal year.

**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 Matching funds was approximately \$6 million, of which \$1.6 million was allocated to the Drinking Water Treatment Revolving Fund and \$4.4 million to the Clean Water State Revolving Fund. As of year-end, the Council has 39 binding commitments. These include 25 loans and 14 grants for which the funds are committed and not disbursed as described in Note 12 to the financial statements.

**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.

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued  
(Unaudited)**

**BUDGETARY HIGHLIGHTS (Continued)**

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, \$328 million (prior to amortization) in general obligation, revenue and refunding bonds issued for the benefit of the Council were outstanding versus \$342 million in the prior year, a decrease of 4% resulting from scheduled principal payments and offset by current year accreted interest on capital appreciation bonds. For more information on long-term debt, please refer to Note 7 of the financial statements.

As of June 30, 2014, 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, 2014, the State of West Virginia, Infrastructure General Obligation Bonds Series 1996A and the State of West Virginia Infrastructure General Obligation Bonds Series 1996D had a Standard & Poor's rating of AA-. The State of West Virginia Infrastructure General Obligation Bonds Series 1998A, State of West Virginia Infrastructure General Obligation Bonds Series 1999C, State of West Virginia Infrastructure General Obligation Bonds Series 2006 A and Series 2011A had a Standard & Poor's rating of AA. The bond insurer, National Public Finance Guarantee Corporation, had a rating by Standard & Poor's of AA-.

As of June 30, 2014, the West Virginia Water Development Authority, Infrastructure Revenue Refunding Bonds Series 2012 A had a Moody's rating of Aa3 and a Fitch rating of AA-.

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.

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued  
(Unaudited)**

**DEBT ADMINISTRATION (Continued)**

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 or results of operations (revenues, expenses, and other changes in fund balance and net position) include several factors.

The Legislature appropriated to the Council \$26 million for fiscal year 2015 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 \$20 million to provide additional loans, grants and other funding assistance and an additional \$6 million restricted for Chesapeake Bay and Greenbrier Watershed projects.

On August 7, 2014, the Authority obtained written direction of the Governor authorizing the Authority to issue not more than \$120,000,000 of its Infrastructure Lottery Revenue Bonds (Chesapeake Bay/Greenbrier River) to provide money necessary for the Council to make grants to project sponsors. The bond issue is anticipated to close mid-October.

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 POSITION

Year Ended June 30, 2014

	Governmental Activities	Business Type Activities	Total
<b><u>ASSETS</u></b>			
Cash equivalents	\$ 20	\$ 209,000,313	\$ 209,000,333
Investments	-	102,858,563	102,858,563
Accrued interest receivable	-	2,159,507	2,159,507
Prepaid insurance	101,503	379,035	480,538
Asset held by others	-	1,000,000	1,000,000
Loans receivable, net of allowances of \$11,393,000	-	482,186,809	482,186,809
Miscellaneous receivable	-	18,173	18,173
<b>Total assets</b>	<b>\$ 101,523</b>	<b>\$ 797,602,400</b>	<b>\$ 797,703,923</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Losses on bond refundings	<b>\$ 2,555,853</b>	<b>\$ 2,383,069</b>	<b>\$ 4,938,922</b>
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ -	\$ 22,448	\$ 22,448
Due to other State of West Virginia agencies	-	217,724	217,724
Accrued interest payable	1,180,276	1,199,453	2,379,729
General obligation bonds			
Due within one year, net of unamortized premium of \$387,231	16,272,231	-	16,272,231
Due after one year, net of unamortized premium of \$4,018,971	205,177,550	-	205,177,550
Revenue bonds			
Due within one year, net of unamortized premium of \$59,430 and unamortized discount of \$7,577	-	2,671,853	2,671,853
Due after one year, net of unamortized premium of \$1,540,551 and unamortized discount of \$62,510	-	110,063,041	110,063,041
<b>Total liabilities</b>	<b>\$ 222,630,057</b>	<b>\$ 114,174,519</b>	<b>\$ 336,804,576</b>
<b><u>NET POSITION</u></b>			
Net position:			
Restricted	\$ 20	\$ 641,279,454	\$ 641,279,474
Unrestricted (deficit)	(219,972,701)	44,531,496	(175,441,205)
<b>Total net position</b>	<b>\$ (219,972,681)</b>	<b>\$ 685,810,950</b>	<b>\$ 465,838,269</b>

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, 2014

Functions/Programs	Expenses	Program Revenue	Net (Expenses) Revenue and Changes in Net Position		Total
			Governmental Activities	Business-Type Activities	
Governmental activities:					
Interest on long-term debt	\$ 11,182,265	\$ -	\$ (11,182,265)	\$ -	\$ (11,182,265)
Business-type activities:					
Infrastructure and jobs development	35,807,874	3,076,311	-	(32,731,563)	(32,731,563)
Total primary government	<u>\$ 46,990,139</u>	<u>\$ 3,076,311</u>	<u>\$ (11,182,265)</u>	<u>\$ (32,731,563)</u>	<u>\$ (43,913,828)</u>
General revenues:					
Intergovernmental			\$ 23,000,000	\$ 46,000,000	\$ 69,000,000
Other			-	100,000	100,000
Investment earnings			6,755	264,601	271,356
Transfers in (out)			(256,358)	256,358	-
Total general revenues and transfers			<u>22,750,397</u>	<u>46,620,959</u>	<u>69,371,356</u>
Change in net position			11,568,132	13,889,396	25,457,528
Net position, beginning of year			(231,540,813)	671,921,554	440,380,741
Net position, end of year			<u>\$ (219,972,681)</u>	<u>\$ 685,810,950</u>	<u>\$ 465,838,269</u>

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

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

## BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2014

	Debt Service Fund
<u>ASSETS</u>	
Cash	<u>\$ 20</u>
<u>FUND BALANCE</u>	
Restricted	<u>20</u>
Total fund balance	<u>\$ 20</u>

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, 2014

	Debt Service Fund
Revenues:	
Intergovernmental	\$ 23,000,000
Investment earnings	<u>6,755</u>
Total revenues	<u>23,006,755</u>
Expenditures:	
Debt service:	
Principal	15,505,000
Interest	<u>7,264,275</u>
Total expenditures	<u>22,769,275</u>
Other financing sources (uses):	
Transfers out	<u>(256,358)</u>
Net change in fund balance	(18,878)
Fund balance, beginning of year	<u>18,898</u>
Fund balance, end of year	<u>\$ 20</u>

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

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

## STATEMENT OF NET POSITION - PROPRIETARY FUND

Year Ended June 30, 2014

	<u>Enterprise Fund</u>
<b><u>ASSETS</u></b>	
Current assets:	
Cash equivalents	\$ 209,000,313
Investments	102,858,563
Current portion of loans receivable	19,045,424
Accrued interest receivable	2,159,507
Prepaid insurance	15,152
Miscellaneous receivable	18,173
Total current assets	<u>333,097,132</u>
Noncurrent assets:	
Asset held by others	1,000,000
Prepaid insurance	363,883
Loans receivable, net of allowances of \$11,393,000	463,141,385
Total noncurrent assets	<u>464,505,268</u>
Total assets	<u>\$ 797,602,400</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>	
Loss on bond refundings	<u>\$ 2,383,069</u>
<b><u>LIABILITIES</u></b>	
Current liabilities:	
Accounts payable	\$ 22,448
Due to other State of West Virginia agencies	217,724
Accrued interest payable	1,199,453
Current portion of revenue bonds payable, net of unamortized premium of \$59,430 and unamortized discount of \$7,577	<u>2,671,853</u>
Total current liabilities	<u>4,111,478</u>
Noncurrent liabilities:	
Noncurrent portion of revenue bonds payable, net of unamortized premium of \$1,540,551 and unamortized discount of \$62,510	<u>110,063,041</u>
Total liabilities	<u>\$ 114,174,519</u>
<b><u>NET POSITION</u></b>	
Restricted	\$ 641,279,454
Unrestricted	<u>44,531,496</u>
Total net position	<u>\$ 685,810,950</u>

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 POSITION - PROPRIETARY FUND

Year Ended June 30, 2014

	<u>Enterprise Fund</u>
Interest charges for services	\$ 3,076,311
Operating expenses:	
Infrastructure and economic development	29,360,010
Provisions for uncollectible loans	525,000
General and administrative	<u>1,023,302</u>
Total operating expenses	<u>30,908,312</u>
Operating loss	<u>(27,832,001)</u>
Nonoperating revenues (expenses):	
Intergovernmental	46,000,000
Other	100,000
Investment earnings, net	264,601
Interest on bonds	<u>(4,899,562)</u>
Total nonoperating revenues, net	41,465,039
Transfers in	<u>256,358</u>
Change in net position	13,889,396
Net position, beginning of year	<u>671,921,554</u>
Net position, end of year	<u>\$ 685,810,950</u>

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, 2014

	<u>Enterprise Fund</u>
Cash flows from operating activities:	
Receipts of principal on loans	\$ 20,078,060
Receipts of interest on loans	2,661,736
Disbursements of loans	(26,932,483)
Disbursements of grants	(29,360,010)
Disbursements of general and administrative expenses	(922,006)
Net cash used in operations	<u>(34,474,703)</u>
Cash flows from noncapital financing activities:	
Excess lottery and other appropriations	46,000,000
Proceeds from settlement	100,000
Transfers in	256,358
Principal paid on revenue bonds	(2,710,000)
Interest paid on revenue bonds	(4,844,838)
Net cash provided by noncapital financing activities	<u>38,801,520</u>
Cash flows from investing activities:	
Purchase of investments	(199,918,096)
Proceeds from sale of investments	202,308,303
Investment earnings	310,136
Net cash provided by investing activities	<u>2,700,343</u>
Net increase in cash and cash equivalents	7,027,160
Cash and cash equivalents, beginning of year	<u>201,973,153</u>
Cash and cash equivalents, end of year	<u>\$ 209,000,313</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (27,832,001)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Provision for loan losses	525,000
Changes in assets and liabilities:	
Due to other agencies	97,934
Loans receivable	(6,854,423)
Miscellaneous receivables	217
Accrued interest receivable	(414,792)
Accounts payable	3,362
Net cash used in operating activities	<u>\$ (34,474,703)</u>

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 thirteen 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 six 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 position 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.



## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### 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 mineral 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.

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**Allowance for Uncollectible Loans

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

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

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 Premiums, Discounts and Issuance Costs

Bond premiums and discounts 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. Bond issuance costs are expensed as incurred.

Deferred Outflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The Council's losses on bond refunding is a deferred charge on refunding that results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Arbitrage Rebate Payable

The United States Internal Revenue Code of 1986, as amended (the "Code"), prescribes restrictions applicable to the Council as issuer of Infrastructure Fund 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, 2014, the Council is not liable to the federal government as a result of arbitrage.

# WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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 Position

Net position is presented as restricted or unrestricted. Restricted net position represents assets restricted for the repayment of bond proceeds or by bond covenants. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, restricted resources are applied first.

### 5 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Total fund balance on governmental fund balance sheet	\$	20
Under the current financial resources measurement focus and modified accrual basis of accounting, liabilities related to debt service are not recorded until due and are not included in the governmental funds balance sheet:		
Prepaid insurance on outstanding bond issues		101,503
Deferred outflows of resources		2,555,853
General obligation bonds		(221,449,781)
Accrued interest on general obligation bonds		<u>(1,180,276)</u>
Net position (deficit) of governmental activities	\$	<u>(219,972,681)</u>

# WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 5 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

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	\$ (18,878)
Principal debt payments recorded on the modified accrual basis of accounting are not recorded in the governmental activities	15,505,000
Accretion of interest related to capital appreciation bonds is an expense of the governmental activities	<u>(3,917,990)</u>
Change in net position of governmental activities	<u>\$ 11,568,132</u>

### 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.

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 \$20 at June 30, 2014.

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

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

The overall weighted average maturity of the investments of the West Virginia Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**6 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)**Interest Rate Risk - West Virginia Money Market Pool (Continued)

<u>Security Type</u>	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 170,184	1
U.S. treasury notes	185,065	47
U.S. treasury bills	104,995	44
Commercial paper	1,007,058	33
Certificates of deposit	182,000	51
U.S. agency discount notes	207,484	38
Corporate bonds and notes	20,000	17
U.S. agency bonds	82,765	74
Money market funds	39	1
	<u>\$ 1,959,590</u>	<u>36</u>

Interest Rate Risk - All Other Investments

As of June 30, 2014, the Council had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>1-5</u>
Guaranteed investment contracts	\$ 2,870,313	\$ -	\$ 2,870,313
U.S. Treasury obligations	99,988,250	99,988,250	-
Money markets	<u>209,000,313</u>	<u>209,000,313</u>	<u>-</u>
	<u>\$ 311,858,876</u>	<u>\$ 308,988,563</u>	<u>\$ 2,870,313</u>

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.

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**6 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)**Concentration of Credit Risk - West Virginia Money Market Pool

Concentration of credit risk is the risk of loss attributed to the magnitude of an 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. 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:

<u>Permitted Investments</u>	<u>Maximum Percentage of Portfolio</u>	<u>Enterprise Fund Percentage as of June 30, 2014</u>
(a) Direct Federal Obligations	100%	32.06%
(b) Federally Guaranteed Obligations	100%	-
(c) Federal Agency Obligations	90%	-
(d) Money Markets	90%	67.02%
(e) Repurchase Agreements/Investment Contracts	90%	.92%
(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 market funds, 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 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 INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**6 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (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):

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Commercial paper	P-1	A-1+	\$ 234,951	11.99 %
	P-1	A-1	772,107	39.4
Corporate bonds and notes	Aa3	AA-	20,000	1.02
U.S. agency bonds	Aaa	AA+	82,765	4.22
U.S. Treasury notes*	Aaa	AA+	185,065	9.45
U.S. Treasury bills*	P-1	A-1+	104,995	5.36
Negotiable certificates of deposit	NR	AA-	10,000	0.51
	P-1	A-1+	28,000	1.43
	P-1	A-1	144,000	7.35
U.S. agency discount notes	P-1	A-1+	207,484	10.59
Money market funds	Aaa	AAA	39	0.00
Repurchase agreements (underlying securities):				
U.S. treasury notes*	Aaa	AA+	93,284	4.76
U.S. agency notes	Aaa	AA+	76,900	3.92
			<u>\$ 1,959,590</u>	<u>100.00 %</u>

NR - Not rated by rating agency.

\* US Treasury issues are explicitly guaranteed by the United States government and 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
<b>Investment of bond proceeds:</b>			
Guaranteed investment contracts	A2	AA-	\$ 2,870,313
<b>Investment of other revenues:</b>			
Money markets	Aaa-mf	AAAm	209,000,313
U.S. Treasury obligations	Aaa-mf	AAAm	99,988,250
West Virginia Money Market Pool		AAAm	20
Total cash equivalents and investments			<u>\$ 311,858,896</u>

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.



## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**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, 2014, 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 Position - Proprietary Fund is as follows:

As disclosed in this Note:	
Total investments	\$ 311,858,896
Less: cash equivalents	<u>(209,000,333)</u>
Carrying amount of investments	<u>\$ 102,858,563</u>
As reported on the Statement of Net Position - Proprietary Fund:	
Investments	<u>\$ 102,858,563</u>

**7 - LONG -TERM DEBT**

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

	Balance July 1, 2013	Additions/ Accretions	Debt Reductions	Balance June 30, 2014
Governmental fund type:				
General Obligation Bonds*				
1996 Series A and D	\$ 14,245,000	\$ -	\$ -	\$ 14,245,000
1998 Series A	26,100,000	-	-	26,100,000
1999 Series C	8,025,000	-	1,125,000	6,900,000
1999 Series A Capital Appreciation	79,162,125	4,106,454	7,150,000	76,118,579
2006 Series A Refunding	85,780,000	-	3,760,000	82,020,000
2011 Series A Refunding	15,130,000	-	3,470,000	11,660,000
	<u>228,442,125</u>	<u>4,106,454</u>	<u>15,505,000</u>	<u>217,043,579</u>

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)

## 7 - LONG -TERM DEBT (Continued)

	Balance July 1, 2013	Additions/ Accretions	Debt Reductions	Balance June 30, 2014
Business type activity:				
Revenue and Refunding Bonds				
2006 Series A	\$ 40,665,000	\$ -	\$ 730,000	\$ 39,935,000
2006 Series B	9,800,000	-	65,000	9,735,000
2007 Series A	36,015,000	-	580,000	35,435,000
2012 Series A Refunding	27,435,000	-	1,335,000	26,100,000
	<u>113,915,000</u>	<u>-</u>	<u>2,710,000</u>	<u>111,205,000</u>
Total	<u>\$ 342,357,125</u>	<u>\$ 4,106,454</u>	<u>\$ 18,215,000</u>	<u>\$ 328,248,579</u>

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 \$23 million of mineral severance tax revenue deposited into the Governmental Fund from the State's general fund. Principal, net of accretion, and interest paid on these bonds were \$15,505,000 and \$7,264,275, respectively for the year ended June 30, 2014.

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)

## 7 - LONG - TERM DEBT (Continued)

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
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
2018	10,285,000	5,405,453	15,690,453
2019	10,930,000	4,804,028	15,734,028
	<u>48,935,000</u>	<u>29,514,725</u>	<u>78,449,725</u>
2020 - 2024	53,875,000	16,144,709	70,019,709
2025 - 2027	38,115,000	2,838,960	40,953,960
	<u>91,990,000</u>	<u>18,983,669</u>	<u>110,973,669</u>
	<u>\$ 140,925,000</u>	<u>\$ 48,498,394</u>	<u>\$ 189,423,394</u>

## Capital Appreciation Bonds:

	Principal, net of amounts to be accrued in future years	Amounts to be accrued in future years	Total
2015	\$ 6,976,785	\$ 123,215	\$ 7,100,000
2016	6,574,584	475,416	7,050,000
2017	6,298,706	826,294	7,125,000
2018	5,913,642	1,161,358	7,075,000
2019	5,552,732	1,472,268	7,025,000
	<u>31,316,449</u>	<u>4,058,551</u>	<u>35,375,000</u>
2020 - 2024	29,596,440	14,428,560	44,025,000
2025 - 2027	15,205,690	12,894,310	28,100,000
	<u>44,802,130</u>	<u>27,322,870</u>	<u>72,125,000</u>
Total capital appreciation bonds	<u>76,118,579</u>	<u>\$ 31,381,421</u>	<u>\$ 107,500,000</u>
Total general obligation bonds and capital appreciation bonds	217,043,579		
Add: unamortized premium	4,406,202		
Less: amount due within one year	<u>(16,272,231)</u>		
Amount due after one year	<u>\$ 205,177,550</u>		

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)

## 7 - 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 2045, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,620,000	\$ 4,745,948	\$ 7,365,948
2016	2,720,000	4,640,223	7,360,223
2017	2,830,000	4,531,223	7,361,223
2018	2,940,000	4,416,673	7,356,673
2019	<u>3,030,000</u>	<u>4,292,160</u>	<u>7,322,160</u>
	<u>14,140,000</u>	<u>22,626,227</u>	<u>36,766,227</u>
2020 - 2024	17,345,000	19,311,350	36,656,350
2025 - 2029	19,880,000	15,319,669	35,199,669
2030 - 2034	22,095,000	10,616,531	32,711,531
2035 - 2039	24,785,000	6,041,022	30,826,022
2040 - 2044	10,700,000	1,642,778	12,342,778
2045	<u>2,260,000</u>	<u>95,950</u>	<u>2,355,950</u>
	<u>97,065,000</u>	<u>53,027,300</u>	<u>150,092,300</u>
Total revenue and refunding bonds	111,205,000	<u>\$ 75,653,527</u>	<u>\$ 186,858,527</u>
Add: unamortized premium	1,599,981		
Less: unamortized discount	(70,087)		
Less: amount due within one year	<u>(2,671,853)</u>		
Amount due after one year	<u>\$ 110,063,041</u>		

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 \$7,500,029 and \$979,181 respectively were available for revenue bond debt service of \$7,554,838, comprised of \$2,710,000 for principal and \$4,844,838 for interest, respectively for the year ended June 30, 2014.

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**7 - LONG -TERM DEBT (Continued)**

Business Type Activity (Continued)

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, 2014, the Council had no liability for excess investment earnings on bond proceeds.

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, 2014, there were \$10,810,000 in defeased general obligation bonds outstanding.

**8 - TRANSACTIONS WITH STATE OF WEST VIRGINIA AGENCIES**

The Council received \$23 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 2014. 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, 2014, \$46 million was appropriated for and received by the Council.

During the year ended June 30, 2014, the Council contributed \$1,684,200 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, 2014, the Council contributed \$4,371,200 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, 2014, the Council had incurred \$1,023,302 of expenses of which \$217,724 remains unpaid at June 30, 2014.

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**9 - SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses in the enterprise fund for the year ended June 30, 2014, were as follows:

Salaries and benefits	\$ 511,111
Legal	205,148
Consulting and professional	69,126
Rentals	91,106
Travel and training	10,219
Office supplies	4,481
Computer services	9,452
Telecommunications	4,611
Trustee	101,703
Insurance	3,088
Postage	500
Property taxes	<u>12,757</u>
Total general and administrative	<u>\$ 1,023,302</u>

**10 - 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 to employees and health coverage for its employees in exchange for the payment of premiums to a commercial insurance provider and WVPEIA. Accordingly, the Council has transferred its risk related to job-related injuries and health coverage for employees.

The Council obtained coverage for general liability, property damage, business interruption, errors and omissions, and natural disasters from the West Virginia Board of Risk and Insurance Management in exchange for an annual premium. There were no changes in coverage or claims in excess of coverage for the year ended June 30, 2014.

**11 - RESTRICTED NET POSITION**

Restrictions of net position are the result of constraints placed on the use of net position which have been imposed through third party bond indentures and enabling legislation. The enterprise fund Statement of Net Position reports \$641,279,454 of restricted net position, of which \$105,795,894 is restricted for the debt service related to the defined loan program segment of the revenue bonds.

# WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 12 - COMMITMENTS

The Council received notice on August 7, 2014, from the Governor of the State of West Virginia, confirming the authorization to issue Infrastructure Excess Lottery Revenue Bonds of not more than \$120,000,000 in aggregate principal. This issue is designed to support grant funding to project sponsors for certain Chesapeake Bay and Greenbrier River watershed projects. The IJDC expects to issue these bonds in October 2014, the final amount of the issuance is yet to be determined.

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, 2014, \$148,227,365 was designated by the Council for loans and grants. Additionally, the Council has designated \$1,769,000 for contributions to one State agency for the required State match for federally sponsored revolving funds.

### 13 - NEW ACCOUNTING PRONOUNCEMENTS

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will require the Council to record its 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 this statement will have on its financial statements.

### 14 - SEGMENT INFORMATION

The segment information for the Council's Enterprise Fund is comprised of the Defined Loan Program segment consisting of a series of defined loans, which are the primary source of repayment of the revenue bonds, as dictated by the bond resolutions.

During the fiscal year ended June 30, 2014, the Council adopted a resolution to remove certain previously reported defined loans from the defined loan portfolio and replaced them with a new group of loans. The effect of this resolution created a restatement of the segment information beginning net position as follows:

Defined loan program segment:

Beginning net position as previously reported, June 30, 2013	\$ 107,432,352
Adjustment for segment replacement of certain loans	<u>2,399,482</u>
Beginning net position, as restated	<u>\$ 109,831,834</u>

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2014

## 14 - SEGMENT INFORMATION (Continued)

	Defined Loan Program
Assets:	
Current	
Noncurrent	\$ 24,529,733
	<u>193,007,098</u>
Total assets	<u>\$ 217,536,831</u>
Deferred outflows of resources:	
Losses on bond refundings	<u>\$ 2,383,069</u>
Liabilities:	
Current	
Noncurrent	\$ 4,061,432
Total liabilities	<u>110,063,041</u>
	<u>114,124,473</u>
Net position:	
Restricted	<u>\$ 105,795,427</u>
Operating revenue:	
Charges for services	\$ 979,181
Operating expenses:	
General and administrative	372,885
Interest on bonds	<u>4,844,838</u>
Operating loss:	<u>(4,238,542)</u>
Nonoperating revenues (expenses):	
Interest and investment revenue, net of arbitrage	165,250
Other	(37,114)
Transfers (net)	<u>73,999</u>
Change in net position	(4,036,407)
Beginning net position, as restated	<u>109,831,834</u>
Ending net position	<u>\$ 105,795,427</u>
Cash flows:	
Net cash provided (used) by:	
Operating activities	
Noncapital financing activities	\$ 3,589,701
Investing activities	(2,595,644)
Beginning cash and cash equivalents	192,718
	<u>15,491,098</u>
Ending cash and cash equivalents	<u>\$ 16,677,873</u>



**INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of the governmental activities, business-type activities, and each major fund of the West Virginia Infrastructure and Jobs Development Council (the Council), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 6, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Council's financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Gibbons & Kawash, A.C.*

Charleston, West Virginia  
October 6, 2014