

**WEST VIRGINIA
ECONOMIC DEVELOPMENT AUTHORITY**

AUDITED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

CONTENTS

| | Page |
|--|------|
| INDEPENDENT AUDITOR'S REPORT..... | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS - (UNAUDITED) | 3 |
| COMBINED FINANCIAL STATEMENTS | |
| Combined Statements of Net Position | 7 |
| Combined Statements of Revenues, Expenses, and Changes in Fund Net Position..... | 8 |
| Combined Statements of Cash Flows | 9 |
| Notes to Combined Financial Statements | 11 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Schedule of the Proportionate Share of the Net Pension Liability..... | 53 |
| Schedule of Contributions to the PERS | 54 |
| Schedule of the Proportionate Share of the Net OPEB Liability | 55 |
| Schedule of Contributions to the RHBT | 56 |
| Notes to Required Supplementary Information | 57 |
| 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> | 60 |



INDEPENDENT AUDITOR'S REPORT

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

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the West Virginia Economic Development Authority (the Authority), a component unit of the State of West Virginia, as of and for the years ended June 30, 2019 and 2018, 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 Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements based on our audits. We conducted our audits 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the respective financial position of the West Virginia Economic Development Authority as of June 30, 2019 and 2018, and the respective changes in its financial position and its cash flows for the years 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 6 and the schedule of the proportionate share of the net pension liability, the schedule of contributions to the PERS, the schedule of the proportionate share of the net OPEB liability, and the schedule of contributions to the RHBT on pages 53 through 59 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 September 26, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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 the Authority's internal control over financial reporting and compliance.


CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
September 26, 2019

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

This section will discuss the financial performance of the West Virginia Economic Development Authority (WVEDA) and its blended combined entities, West Virginia Enterprise Advancement Corporation (WVEAC) and West Virginia Enterprise Capital Fund (WVECF); collectively referred to as "the Authority." The annual combined financial report presents our discussion and analysis of the Authority for fiscal years ended on June 30, 2019, 2018, and 2017. Please read it in conjunction with the Authority's combined financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- The Authority's total net position increased approximately \$5.22 million for the year ended June 30, 2019 and \$763 thousand net of the restatement for a change in accounting principle as of July 1, 2017, for the year ended June 30, 2018.
- Total assets increase by approximately \$12.67 million for the year ended June 30, 2019 and decreased by approximately \$19.01 million for the year ended June 30, 2018.
- Total liabilities increased by approximately \$7.27 million for the year ended June 30, 2019 and decreased by approximately \$21.01 million for the year ended June 30, 2018.
- Loan and lease originations for the year totaled approximately \$20.02 million for the year ended June 30, 2019 and approximately \$15.7 million for the year ended June 30, 2018.

OVERVIEW OF THE COMBINED FINANCIAL STATEMENTS

The annual combined financial statements consist of: Management's Discussion and Analysis (this section), the combined financial statements and notes to combined financial statements, and other required supplementary information related to pensions and OPEB.

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

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

The combined financial statements report information about the Authority's use of accounting methods which are similar to those used by private sector companies. These combined financial statements are presented in a manner similar to a private business, such as real estate development, investment banking, commercial lending, construction management, and private consulting, subject to the provisions of generally accepted accounting principles followed by governments for special purpose governments engaged in business type activities.

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

FINANCIAL ANALYSIS OF THE AUTHORITY

Combined Statements of Net Position: The following table summarizes the balances in the Combined Statements of Net Position as of June 30, 2019, 2018, and 2017.

| | (in millions) | | | % Change FY 19-18 | % Change FY 18-17 |
|--|------------------|------------------|------------------|----------------------|----------------------|
| | 2019 | 2018 | 2017 | | |
| Current assets | \$ 96.51 | \$ 83.27 | \$ 79.53 | 15.90 | 4.70 |
| Capital assets, net | 23.37 | 24.40 | 30.54 | (4.22) | (20.10) |
| Other noncurrent assets | 173.19 | 172.73 | 190.24 | 0.27 | (9.20) |
| Total assets | <u>293.07</u> | <u>280.40</u> | <u>300.31</u> | 4.52 | (6.63) |
| Deferred outflows of resources | <u>0.09</u> | <u>0.12</u> | <u>0.25</u> | (0.25) | (52.00) |
| Total assets and deferred outflows of resources | <u>\$ 293.16</u> | <u>\$ 280.52</u> | <u>\$ 300.56</u> | 4.51 | (6.67) |
| Current liabilities | \$ 14.18 | \$ 13.80 | \$ 19.85 | 2.75 | (30.48) |
| Noncurrent liabilities | 112.29 | 105.40 | 120.36 | 6.54 | (12.43) |
| Total liabilities | <u>126.47</u> | <u>119.20</u> | <u>140.21</u> | 6.10 | (14.98) |
| Deferred inflows of resources | <u>0.38</u> | <u>0.23</u> | <u>0.02</u> | 65.22 | 1,050.00 |
| Total liabilities and deferred inflows of resources | <u>126.85</u> | <u>119.43</u> | <u>140.23</u> | 6.21 | (14.83) |
| Net position: | | | | | |
| Net investment in capital assets | 22.82 | 23.19 | 27.62 | (1.60) | (16.04) |
| Restricted | 7.33 | 7.15 | 5.56 | 2.52 | 28.60 |
| Unrestricted | 136.16 | 130.75 | 127.15 | 4.14 | 2.83 |
| Total net position | <u>166.31</u> | <u>161.09</u> | <u>160.33</u> | 3.24 | 0.47 |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 293.16</u> | <u>\$ 280.52</u> | <u>\$ 300.56</u> | 4.51 | (6.67) |

The Authority's overall net position increased by approximately \$5.22 million for the year ended June 30, 2019. Net position increased \$763 thousand which was a net of the change in net position of \$1.43 million and a decrease related to a change in accounting principle of \$667 thousand for the year ended June 30, 2018. Net position increased \$3.16 million for the year ended 2017. Total assets increased by approximately \$12.67 million for the year ended June 30, 2019, decreased by approximately \$19.91 million for the year ending June 30, 2018 and increased approximately \$3.83 million for the year ended June 30, 2017.

(Continued)

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

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

Combined Statements of Revenues, Expenses, and Changes in Fund Net Position: The following table summarizes the balances in the Combined Statements of Revenues, Expenses, and Changes in Fund Net Position for fiscal years 2019, 2018, and 2017.

| | (in millions) | | | % Change FY 19-18 | % Change FY 18-17 |
|---|------------------|------------------|------------------|----------------------|----------------------|
| | 2019 | 2018 | 2017 | | |
| Operating revenues: | | | | | |
| Interest on loans | \$ 4.82 | \$ 5.19 | \$ 3.95 | (7.13) | 31.39 |
| Lease revenues | 4.52 | 4.69 | 4.74 | (3.62) | (1.05) |
| Other revenues | 0.16 | 0.23 | 0.69 | (30.43) | (66.67) |
| Total operating revenues | <u>9.50</u> | <u>10.11</u> | <u>9.38</u> | (6.03) | 7.78 |
| Operating expenses: | | | | | |
| Administrative | 1.26 | 1.88 | 1.51 | (32.98) | 24.50 |
| Depreciation | 1.05 | 1.06 | 1.24 | (0.94) | (14.52) |
| Provision for loan losses | 1.47 | 0.97 | 0.16 | 51.55 | 506.25 |
| Loss in equity investments | 0.45 | 0.17 | 0.68 | 164.71 | (75.00) |
| Total operating expenses | <u>4.23</u> | <u>4.08</u> | <u>3.59</u> | 3.68 | 13.65 |
| Operating income | <u>5.27</u> | <u>6.03</u> | <u>5.79</u> | (12.60) | 4.15 |
| Nonoperating revenues (expenses): | | | | | |
| Interest on invested cash | 1.80 | 0.74 | 0.49 | 143.24 | 51.02 |
| Interest expense | (1.87) | (1.15) | (0.60) | 62.61 | 91.67 |
| Distributions of the State of WV | - | - | (3.50) | - | (100.00) |
| OPEB revenue | 0.02 | 0.03 | - | (33.33) | 100.00 |
| Donation of land | - | 1.18 | - | (100.00) | 100.00 |
| Gain (loss) on sale of asset | - | (5.40) | 0.98 | (100.00) | (651.02) |
| Total nonoperating revenues (expenses) | <u>(0.05)</u> | <u>(4.60)</u> | <u>(2.63)</u> | (98.91) | 74.90 |
| Change in net position | 5.22 | 1.43 | 3.16 | 265.03 | (54.75) |
| Net position, beginning of year | <u>161.09</u> | <u>159.66</u> | <u>157.17</u> | 0.90 | 1.58 |
| Net position, end of year | <u>\$ 166.31</u> | <u>\$ 161.09</u> | <u>\$ 160.33</u> | 3.24 | 0.47 |

** Restated by (.667) for implementation of GASB No. 75

(Continued)

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

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

Within the Authority's activities, the primary revenue sources are interest income on active loans and lease revenue. Nonoperating revenue includes interest income on invested cash. Total revenues exceeded total expenses by \$5.22 million and \$1.43 million for the years ending June 30, 2019, and 2018, respectively.

During 2019, the Authority had write-offs of uncollectible loans of \$501,055, or 0.38% of the total loans. The allowance for loan loss is 5.78% of the total loan portfolio at June 30, 2019.

During 2018, the Authority had write-offs of uncollectible loans of \$1,007,348, or 0.75% of the total loans. The allowance for loan loss is 4.93% of the total loan portfolio at June 30, 2018.

CAPITAL ASSET AND DEBT ADMINISTRATION

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

Debt - Total notes payable increased by approximately \$7.44 million. This was primarily related to an increase in net borrowing on our revolving loan agreement with the West Virginia Board of Treasury Investments to finance loans and leases for economic development purposes. Net change was approximately \$10.69 million. The offsetting decrease stemmed from other monthly repayments of approximately \$1.00 million and debt forgiveness of approximately \$2.25 million based on meeting performance standards defined in certain debt agreements.

Additional information regarding capital assets and debt can be found in the notes to combined financial statements.

CURRENTLY KNOWN FACTS AND CONDITIONS HAVING A SIGNIFICANT EFFECT ON FINANCIAL POSITION

There are currently no known facts and conditions recognized by management that would have a significant effect on the financial position of the Authority.

REQUESTS FOR INFORMATION

The combined financial report is designed to provide an overview of the finances of the Authority for those with an interest in this organization. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the West Virginia Economic Development Authority at Northgate Business Park, 180 Association Drive, Charleston, West Virginia 25311.

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

COMBINED STATEMENTS OF NET POSITION

June 30, 2019 and 2018

| | 2019 | 2018 |
|--|----------------|----------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents (Note 2) | \$ 71,386,477 | \$ 61,130,504 |
| Restricted cash due to others (Note 2) | 297,377 | 297,377 |
| Current portion of loans receivable, net of allowance (Note 6, 7 and 8) | 14,909,427 | 12,559,294 |
| Current portion of investment in direct financing leases (Note 9) | 5,843,013 | 5,738,342 |
| Accrued interest receivable | 4,077,791 | 3,546,512 |
| Total current assets | 96,514,085 | 83,272,029 |
| NONCURRENT ASSETS | | |
| Investments (Note 3) | 1,736,472 | 2,169,496 |
| Restricted cash and cash equivalents (Note 2 and 5) | 7,325,215 | 7,149,794 |
| Loans receivable, less current portion (Note 6 and 8) | 116,472,002 | 114,693,378 |
| Investment in direct financing leases, less current portion (Note 9) | 47,651,471 | 48,716,964 |
| Real estate, property, and equipment, less accumulated depreciation (Note 9) | 23,369,259 | 24,396,412 |
| Total assets | 293,068,504 | 280,398,073 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows of resources related to pension amounts (Note 14) | 68,770 | 97,415 |
| Deferred outflows of resources related to OPEB amounts (Note 15) | 19,733 | 26,930 |
| Total assets and deferred outflows of resources | \$ 293,157,007 | \$ 280,522,418 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 53,010 | \$ 20,640 |
| Accrued interest payable | 2,815,559 | 2,738,088 |
| Amounts due to other State agencies (Note 11) | 325,615 | 258,948 |
| Current portion of compensated absences | 21,216 | 31,484 |
| Current portion of loans payable (Note 10) | 10,966,410 | 10,747,916 |
| Total current liabilities | 14,181,810 | 13,797,076 |
| NONCURRENT LIABILITIES | | |
| Other noncurrent liabilities | 281,780 | 281,780 |
| Compensated absences, less current portion | 17,600 | 35,386 |
| Loans payable, less current portion (Note 10) | 111,610,338 | 104,391,227 |
| Net pension liability (Note 14) | 118,736 | 196,216 |
| Net OPEB liability (Note 15) | 260,666 | 495,130 |
| Total liabilities | 126,470,930 | 119,196,815 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows of resources related to pension amounts (Note 14) | 70,645 | 59,293 |
| Deferred inflows of resources related to OPEB amounts (Note 15) | 308,870 | 173,970 |
| Total liabilities, deferred inflows of resources and net position | 379,515 | 233,263 |
| Net position: | | |
| Net investment in capital assets | 22,817,238 | 23,194,261 |
| Restricted (Note 5) | 7,325,215 | 7,149,794 |
| Unrestricted | 136,164,109 | 130,748,285 |
| Total net position | 166,306,562 | 161,092,340 |
| Total liabilities, deferred inflows of resources and net position | \$ 293,157,007 | \$ 280,522,418 |

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

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

**COMBINED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
Years ended June 30, 2019 and 2018**

| | 2019 | 2018 |
|--|-----------------------|-----------------------|
| OPERATING REVENUES | | |
| Interest on loans | \$ 4,821,446 | \$ 5,194,892 |
| Lease revenue | 4,519,593 | 4,687,585 |
| Other | 161,802 | 230,175 |
| | 9,502,841 | 10,112,652 |
| OPERATING EXPENSES | | |
| Administrative | 1,258,301 | 1,876,365 |
| Depreciation | 1,053,196 | 1,059,998 |
| Provision for loan losses | 1,467,040 | 972,157 |
| Loss on equity investments (Note 3) | 449,154 | 169,092 |
| Total operating expenses | 4,227,691 | 4,077,612 |
| Operating income | 5,275,150 | 6,035,040 |
| NONOPERATING REVENUE (EXPENSE) | | |
| Net, interest earnings on cash and investments | 1,795,420 | 737,231 |
| Interest expense | (1,872,815) | (1,146,962) |
| On behalf OPEB contribution | 16,467 | 31,220 |
| Donation of land | - | 1,178,842 |
| Net gain (loss) on disposal of real estate | - | (5,405,375) |
| | (60,928) | (4,605,044) |
| Change in net position | 5,214,222 | 1,429,996 |
| NET POSITION, beginning of year | 161,092,340 | 159,662,344 |
| NET POSITION, end of year | \$ 166,306,562 | \$ 161,092,340 |

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

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

COMBINED STATEMENTS OF CASH FLOWS

Years ended June 30, 2019 and 2018

| | 2019 | 2018 |
|---|---------------|---------------|
| OPERATING ACTIVITIES | | |
| Cash receipts from lending and leasing activities | \$ 24,646,126 | \$ 35,615,826 |
| Cash receipts from other activities | 754,431 | 177,456 |
| Cash payments for: | | |
| Loans and leases originated | (23,222,397) | (15,105,627) |
| Administrative expenses | (1,330,936) | (1,876,365) |
| Net cash provided by operating activities | 847,224 | 18,811,290 |
| NON-CAPITAL FINANCING ACITIVITIES | | |
| Proceeds from loans payable | 19,975,000 | 4,585,000 |
| Principal payments on loans payable | (10,287,395) | (21,682,322) |
| Interest paid | (1,872,815) | (1,146,962) |
| Net cash provided by (used in) non-capital financing activities | 7,814,790 | (18,244,284) |
| CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition of real estate and equipment | (26,043) | (1,022,720) |
| Proceeds from the sale of real estate | - | 1,321,650 |
| Net cash provided by (used in) capital and related financing activities | (26,043) | 298,930 |
| INVESTING ACTIVITIES | | |
| Distributions to equity investees | - | (20,000) |
| Net interest earnings | 1,795,423 | 737,231 |
| Net cash provided by investing activities | 1,795,423 | 717,231 |
| Net increase in cash and cash equivalents | 10,431,394 | 1,583,167 |
| CASH AND CASH EQUIVALENTS, beginning | 68,577,675 | 66,994,508 |
| CASH AND CASH EQUIVALENTS, ending | \$ 79,009,069 | \$ 68,577,675 |
| | 2019 | 2018 |
| CASH AND CASH EQUIVALENTS include the following balances | | |
| from the Combined Statements of Net Position | | |
| Cash and cash equivalents | \$ 71,386,477 | \$ 61,130,504 |
| Restricted cash due to others | 297,377 | 297,377 |
| Restricted cash and cash equivalents | 7,325,215 | 7,149,794 |
| | \$ 79,009,069 | \$ 68,577,675 |

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

COMBINED STATEMENTS OF CASH FLOWS

(Continued)

Years ended June 30, 2019 and 2018

| | 2019 | 2018 |
|---|--------------|---------------|
| Reconciliation of operating income to net cash provided by operating activities | | |
| Operating income | \$ 5,275,150 | \$ 6,035,040 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities: | | |
| Loans and leases originated | (23,222,397) | (15,105,627) |
| Principal collected on loans | 10,308,567 | 23,076,526 |
| Collections on net investment in direct financing leases | 5,960,822 | 5,486,906 |
| Depreciation | 1,053,196 | 1,059,998 |
| Provision for loan and lease losses | 1,501,055 | 972,157 |
| Recoveries | 34,014 | 35,190 |
| Pension expense | 19,634 | 47,927 |
| OPEB expense | (56,167) | 32,971 |
| Loss on equity investees | 449,154 | 169,092 |
| Changes in operating accounts: | | |
| Increase in accrued interest receivable | (531,279) | (1,274,735) |
| (Increase) decrease in investments | (16,129) | 71,021 |
| Increase in deferred outflows of resources from pension | (57,117) | (70,118) |
| Increase in deferred outflows of resources from OPEB | (19,733) | (26,930) |
| Increase in accounts payable | 32,370 | - |
| Increase (decrease) in amounts due to other State agencies | 49,417 | (1,308,070) |
| Increase in accrued expenses | 66,667 | 43,675 |
| Decrease in unearned lease revenue | - | (433,733) |
| | \$ 847,224 | \$ 18,811,290 |

SUPPLEMENTAL DISCLOSURE OF INVESTING, FINANCING, AND NON-CASH ACTIVITIES:

| | | |
|--|--------------|--------------|
| Cash paid for interest | \$ 1,872,815 | \$ 1,107,123 |
| Increase (decrease) in fair value of investments | 16,129 | (71,021) |
| Net loss on disposal of capital assets | - | (5,405,375) |
| Capital assets converted to direct financing lease activities | - | 600,000 |
| Non-cash special funding contribution related to OPEB | 16,467 | 31,220 |
| Forgiveness of loans receivable and related loans payable based on agreement stipulations and economic development | 2,250,000 | 2,500,000 |

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

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 1. Description of Organization and Summary of Significant Accounting Policies

Description of entities

West Virginia Economic Development Authority (WVEDA)

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

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

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

In evaluating how to define the WVEDA for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity is made by applying the criteria set forth in accounting principles generally accepted in the United States of America (GAAP) for governments. GAAP defines component units as those entities which are legally separate organizations for which the members of the board are financially accountable, or the organizations for which the nature and significance of their relationship with the WVEDA are such that exclusion would cause the WVEDA's statements to be misleading. In accordance with GAAP, the WVEDA's statements are prepared on a blended, or combined, basis and include the activities of the WVEDA, the West Virginia Enterprise Advancement Corporation, and the West Virginia Enterprise Capital Fund.

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Description of entities (Continued)

West Virginia Enterprise Advancement Corporation (WVEAC)

The WVEAC is a nonprofit organization created to advance the economic development and social welfare of the State of West Virginia and its people. Its objectives include the promotion and assistance of business growth and development to foster increased employment opportunities throughout the State of West Virginia through the promotion and development of accessible risk capital. To further these objectives, WVEAC has invested in and is the 100% owner of the West Virginia Enterprise Capital Fund. The WVEAC is exempt from federal income tax on its exempt purpose activities as an organization described in Section 501(c)(3) of the Internal Revenue Code.

West Virginia Enterprise Capital Fund, LLC (WVECF)

The WVECF was incorporated on September 24, 2001. The WVECF is in the business of making venture capital available to companies doing business in the State of West Virginia through investments in venture capital companies as provided under the West Virginia Venture Capital Act. The WVECF is managed by its sole member, the WVEAC.

The WVECF operates as a Limited Liability Company as permitted under West Virginia State Code. As such, the WVECF's net income or loss is allocated to its sole member, a nonprofit organization, in accordance with the regulations of the Internal Revenue Service. Accordingly, no income tax provision has been included in these financial statements.

The WVEDA, WVEAC, and the WVECF are collectively referred to as the "Authority" in these financial statements.

Basis of presentation

The Authority is a component unit of the State of West Virginia, and is accounted for as a proprietary fund special purpose government engaged in business-type activities. In accordance with GAAP, the combined financial statements are prepared on the accrual basis of accounting with a flow of economic resources measurement focus, which requires recognition of revenue when earned and expenses when incurred.

The Authority is included in the State's financial statements as a discretely presented component unit. Because of the Authority's presentation in these financial statements as a special purpose government engaged in business-type activities, there may be differences in presentation of amounts reported in these financial statements and the financial statements of the State of West Virginia as a result of major fund determination.

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Use of estimates

Certain estimates and assumptions are required by management in the preparation of the financial statements in accordance with generally accepted accounting principles (GAAP). The significant estimates and assumptions that affect the reported amounts of assets and liabilities at the statement of net position dates and revenues and expenses for the years then ended are those required in the determination of the allowance for loan losses, accumulated depreciation of capitalized assets, and the valuation of investments in venture capital companies. Actual results in the near-term could differ from the estimates used to prepare these financial statements.

Cash and cash equivalents

Cash and cash equivalents include short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of amounts on deposit with the State Treasurer's Office (STO) and those that are pooled funds managed by the West Virginia Board of Treasury Investments (BTI). Balances maintained in the West Virginia Money Market and West Virginia Government Money Market pools are recorded at amortized cost. Balances maintained in the West Virginia Short Term Bond Pool are recorded at fair value. Net investment income is allocated to participants in the pools based upon the funds that have been invested in each pool. The amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

Investments

Venture Capital Investments

The WVECF invests in venture capital entities which are managed by various fund managers. The investments involve risks not normally associated with investing, including equity interests in development stage companies. The risks associated with these investments are affected by many factors, such as economic outlook, ability to raise capital, and ability to attract customers. Collateral values securing venture capital investments are not readily determinable.

Venture capital investments are not readily marketable, and, therefore, no quoted prices are available. The Fund manager has estimated the value of these investments after consideration of such factors as the cost of the investment, actual performance compared to expected performance, earnings potential, and other relevant factors. Because of uncertainties in the estimation process, estimated values may change in the near term, and those changes may be material.

Other Investments

Other investments include certain amounts held by the BTI for the Authority in a participant directed investment account which maintains a single U.S. Treasury Bond which matures August 15, 2023 and is recorded at fair value.

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Loans

The Authority extends commercial loans to customers. A substantial portion of the loan portfolio is represented by commercial loans throughout West Virginia. The ability of the Authority's debtors to honor their contracts is dependent upon the operating results of the customers and the value of real and personal property held as collateral.

Loans are stated at unpaid principal balances, net of the allowance for loan losses.

Interest on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

Allowance for loan and credit losses

The allowance for loan and credit losses consists of an allowance for loan losses on outstanding loans and certain credit financial instruments of the Authority.

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the statement of net position date. The Authority uses a process to establish the allowance for loan losses semi-annually. To determine the total allowance for loan losses, management estimates the reserves needed for each loan. The allowance for loan losses consists of amounts applicable to (1) commercial - real estate portfolio, (2) commercial - equipment, and (3) commercial-both real estate and equipment.

The establishment of the allowance for loan losses relies on a consistent process that requires layers of management review and significant judgment in determining the estimation method that fits the credit risk characteristics of each portfolio segment, including responses to changes in economic conditions, customer behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts or to release balances from the allowance for loan losses. The Authority's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions. Individual loan risk ratings are evaluated based on each specific situation by experienced staff.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by staff of loan portfolio performance. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

Real estate and equipment held under lease

Real estate and equipment held under lease are carried at cost or, if contributed, at the market value of the property as of the date contributed. Depreciation on equipment and buildings is computed using the straight-line method with estimated useful lives of 5 to 40 years.

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Compensated absences

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

Deferred outflows of resources / deferred inflows of resources

The statement of net position reports a separate financial statement element called *deferred outflows of resources*. This financial statement element represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense) until that time. The Authority reports certain pension and OPEB related amounts as deferred outflows of resources on the combined statements of net position.

The statement of net position reports a separate financial statement element called *deferred inflows of resources*. This financial statement element represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The Authority reports certain pension and OPEB related amounts as deferred inflows of resources on the combined statements of net position.

Unearned lease revenue

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

Net position

The Authority displays net position in three components: net investment in capital assets, restricted, and unrestricted.

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

Restricted Net Position - Restricted net position consists of assets whose use or availability has been externally restricted, and the restrictions limit the Authority's ability to use the resources to pay current liabilities. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as needed.

Unrestricted Net Position - Unrestricted net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." In the governmental environment, net position is often designated to indicate that management does not consider it to be available for general operations. These types of constraints on resources are internal, and management can remove or modify them. Such internal designations are not reported on the face of the statement of net position.

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Operating revenues and expenses

Operating revenues and expenses 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, non-capital financing, or investing activities.

Nonoperating revenues and expenses

Nonoperating revenues and expenses include activities that do not have the characteristics of operating revenues and expenses, such as contributions, investment income, other revenues, and interest expense that are defined as nonoperating by GAAP.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the West Virginia Public Employees Retirement System (PERS) and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments of the PERS are reported at fair value.

Postemployment benefits other than pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the RHBT and additions to/deductions from RHBT's fiduciary net position have been determined on the same basis as they are reported by The West Virginia Retiree Health Benefit Trust Fund (RHBT). For this purpose, RHBT recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for certain pooled investments, money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at amortized cost.

Loan insurance program

The Authority extends non-exchange financial guarantees under its Loan Insurance Program. This program administered by the Authority, provides up to a 90% guarantee of actual loss from a bank to its borrower. The maximum liability to the Authority may not exceed \$500,000 per transaction. The Authority is required to recognize a liability when qualitative, historical and other factors indicate that it is more likely than not that the Authority will be required to make a payment on the financial guarantee, including the evaluation of whether the participating bank has liquidated all collateral of the borrower, including the pursuit of personal guarantees.

Broadband loan insurance program

House Bill 3093 enacted by the West Virginia Legislature on April 8, 2017 and effective as of July 7, 2017 provided that the BTI would provide up to \$50,000,000 to the Authority to provide loan insurance for debt instruments to expand broadband within West Virginia subject to the requirements set forth in the legislation.

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 2. Cash and Cash Equivalents

At June 30, 2019 and 2018, the carrying amount of deposits with financial institutions, the STO, and the BTI were as follows:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Deposits: | | |
| WV Money Market Pool at BTI | \$ 43,015,322 | \$ 30,199,634 |
| WV Government Money Market Pool at BTI | 7,625,215 | 7,449,794 |
| WV Short Term Bond Pool at BTI | 18,332,309 | 17,539,126 |
| Cash held at State Treasurer's Office | 9,710,212 | 13,069,131 |
| Cash held at outside financial institutions | <u>326,011</u> | <u>319,990</u> |
| | <u>\$ 79,009,069</u> | <u>\$ 68,577,675</u> |

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 statutes, policies set by the BTI and by provisions of bond indentures and trust agreements when applicable and thus the Authority follows these investment policies.

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

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Two of the BTI pools, the WV Money Market and WV Government Money Market Pools, have been rated AAAM by Standard & Poor's. A fund rated AAAM has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. AAAM is the highest principal stability fund rating assigned by Standard & Poor's. Neither the BTI itself nor any other of the BTI pools or accounts has been rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate debt to be rated A+ or higher by Standard & Poor's (or its equivalent). 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 obligations or obligations guaranteed as to repayment of interest and principal by the United States of America.

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 2. Cash and Cash Equivalents (Continued)

Credit risk (Continued)

At June 30, 2019 and 2018, the WV Money Market Pool investments had a total carrying value of \$3,956,476,000 and \$3,264,060,000, respectively, of which the Authority's ownership represents 1.09% and .92%, respectively. The following table provides information on the credit ratings of the WV Money Market pool's investments (in thousands):

| Security Type | Credit Rating | | 2019 | | 2018 | |
|--|---------------|------|---------------------|------------------------|---------------------|------------------------|
| | Moody's | S&P | Carrying Value | Percent of Pool Assets | Carrying Value | Percent of Pool Assets |
| U.S. Treasury notes * | Aaa | AA+ | \$ 24,927 | 0.63 % | \$ 90,330 | 2.77 % |
| U.S. Treasury bills * | P-1 | A-1+ | 329,390 | 8.33 | 252,084 | 7.72 |
| Commercial paper | P-1 | A-1+ | 733,411 | 18.54 | 473,172 | 14.50 |
| | P-1 | A-1 | 1,494,297 | 37.77 | 1,351,128 | 41.39 |
| | P-2 | A-1 | 8,490 | 0.21 | 44,600 | 1.37 |
| Corporate bonds and notes | P-1 | A-1 | - | - | 18,078 | 0.55 |
| Negotiable certificates of deposit | P-1 | A-1+ | 179,251 | 4.53 | 205,501 | 6.30 |
| | P-1 | A-1 | 534,891 | 13.52 | 458,300 | 14.04 |
| Money market funds | Aaa | AAA | 178,619 | 4.51 | 143,067 | 4.38 |
| Repurchase agreements (underlying securities): | | | | | | |
| U.S. Treasury notes * | Aaa | AA+ | 426,000 | 10.77 | 227,800 | 6.98 |
| U.S. agency bonds and notes | Aaa | AA+ | 47,200 | 1.19 | - | - |
| | | | <u>\$ 3,956,476</u> | <u>100.00 %</u> | <u>\$ 3,264,060</u> | <u>100.00 %</u> |

* U.S. Treasury issues are explicitly guaranteed by the United States government and are not considered to have credit risk.

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

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 2. Cash and Cash Equivalents (Continued)

Credit risk (Continued)

At June 30, 2019 and 2018, the WV Government Money Market Pool investments had a total carrying value of \$252,144,000 and \$212,304,000, respectively, of which the Authority's ownership represents 3.02% and 3.51%, respectively. The following table provides information on the credit ratings of the WV Government Money Market pool investments (in thousands):

| Security Type | Credit Rating | | 2019 | | 2018 | |
|---|---------------|------|-------------------|------------------------|-------------------|------------------------|
| | Moody's | S&P | Carrying Value | Percent of Pool Assets | Carrying Value | Percent of Pool Assets |
| U.S. agency bonds and notes | Aaa | AA+ | \$ 30,975 | 12.28 % | \$ 52,300 | 24.63 % |
| U.S. Treasury notes * | Aaa | AA+ | - | - | 10,973 | 5.17 |
| U.S. Treasury bills * | P-1 | A-1+ | 57,785 | 22.93 | 23,950 | 11.28 |
| U.S. agency discount notes | P-1 | A-1+ | 110,373 | 43.77 | 76,734 | 36.14 |
| Money market funds | Aaa | AAAm | 111 | 0.04 | 247 | 0.12 |
| Repurchase agreements (underlying securities) | | | | | | |
| U.S. Treasury notes * | Aaa | AA+ | - | - | 41,614 | 19.60 |
| U.S. agency bond and notes | Aaa | AA+ | 52,900 | 20.98 | 6,486 | 3.06 |
| | | | <u>\$ 252,144</u> | <u>100.00 %</u> | <u>\$ 212,304</u> | <u>100.00 %</u> |

* U.S. Treasury issues are explicitly guaranteed by the United States government and are not considered to have credit risk.

The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all long term corporate debt to be rated BBB- or higher by Standard & Poor's (or its equivalent) and all short-term corporate debt to be rated A-1 or higher by Standard & Poor's (or its equivalent). Mortgage-backed and asset-backed securities must be rated AAA by Standard & Poor's (or its equivalent). The pool must have at least 15% of its assets in U.S. Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America.

At June 30, 2019 and 2018, the WV Short Term Bond Pool investments had a total carrying value of \$731,969,000 and \$712,582,000, respectively, of which the Authority's ownership represents 2.50% and 2.47%, respectively. The following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 2. Cash and Cash Equivalents (Continued)

Credit Risk (Continued)

| Security Type | Credit Rating | | 2019 | | 2018 | |
|---|---------------|------|-------------------|------------------------|-------------------|------------------------|
| | Moody's | S&P | Carrying Value | Percent of Pool Assets | Carrying Value | Percent of Pool Assets |
| U.S. Treasury notes * | Aaa | AA+ | \$ 115,292 | 15.75 % | \$ 86,189 | 12.10 % |
| U.S. agency | NR | BBB- | - | - | 1,953 | 0.28 |
| mortgage backed securities * | Aaa | AA+ | - | - | 32,546 | 4.57 |
| U.S. agency collateralized mortgage obligations | | | | | | |
| U.S government guaranteed * | Aaa | AA+ | 26,472 | 3.62 | - | - |
| Non-U.S. government guaranteed | Aaa | AA+ | 23,674 | 3.23 | - | - |
| Corporate fixed-and floating-rate bonds and notes | | | | | | |
| | Aaa | AAA | - | - | 2,878 | 0.40 |
| | Aaa | AA+ | 2,147 | 0.30 | - | - |
| | Aa1 | AA+ | - | - | 5,012 | 0.70 |
| | Aa2 | AA+ | 5,024 | 0.69 | 3,990 | 0.56 |
| | Aa2 | AA | 5,577 | 0.76 | - | 0.00 |
| | Aa2 | AA- | - | - | 7,094 | 1.00 |
| | Aa2 | A+ | 8,566 | 1.17 | 9,940 | 1.39 |
| | Aa2 | NR | 2,784 | 0.38 | - | - |
| | Aa3 | AA+ | 5,042 | 0.69 | - | - |
| | Aa3 | AA- | 16,616 | 2.27 | 13,999 | 1.96 |
| | Aa3 | A+ | 13,139 | 1.80 | 5,084 | 0.71 |
| | Aa3 | A | 2,765 | 0.38 | - | - |
| | A1 | AA- | 18,323 | 2.50 | 11,813 | 1.66 |
| | A1 | A+ | 15,880 | 2.17 | 10,595 | 1.49 |
| | A1 | A | 7,426 | 1.01 | 6,306 | 0.88 |
| | A1 | A- | 8,612 | 1.18 | 3,273 | 0.46 |
| | A1 | NR | 5,223 | 0.71 | - | - |
| | A2 | A+ | - | - | 5,968 | 0.84 |
| | A2 | A | 19,418 | 2.65 | 27,673 | 3.89 |
| | A2 | A- | 24,214 | 3.31 | 11,531 | 1.62 |
| | A3 | A+ | 8,592 | 1.17 | - | - |
| | A3 | A | 13,148 | 1.80 | 8,974 | 1.26 |
| | A3 | A- | 35,050 | 4.79 | 29,872 | 4.19 |
| | A3 | BBB+ | 30,732 | 4.20 | 27,112 | 3.80 |
| | Baa1 | A | - | - | 2,828 | 0.40 |
| | Baa1 | A- | 6,889 | 0.94 | 8,922 | 1.25 |
| | Baa1 | BBB+ | 14,806 | 2.02 | 28,242 | 3.96 |
| | Baa1 | BBB | 5,213 | 0.71 | 13,078 | 1.84 |
| | Baa2 | A- | 6,143 | 0.84 | 1,016 | 0.14 |
| | Baa2 | BBB+ | 14,524 | 1.98 | 8,353 | 1.17 |
| | Baa2 | BBB | 37,277 | 5.09 | 30,250 | 4.25 |
| | Baa2 | BBB- | 6,369 | 0.87 | 2,946 | 0.41 |
| | Baa2 | NR | - | - | 2,135 | 0.30 |
| | Baa3 | BBB+ | 1,091 | 0.15 | 3,003 | 0.42 |
| | Baa3 | BBB | 9,193 | 1.26 | 8,548 | 1.20 |
| | Baa3 | BBB- | 36,044 | 4.92 | 12,378 | 1.74 |
| | Ba1 | A- | - | - | 350 | 0.05 |
| | Ba1 | BBB | 2,013 | 0.28 | 2,007 | 0.28 |
| | Ba1 | BBB- | 4,214 | 0.58 | 6,219 | 0.87 |
| | NR | A | 8,761 | 1.20 | - | - |
| | NR | BBB+ | 2,658 | 0.36 | 2,572 | 0.36 |
| Collateralized mortgage obligations | | | | | | |
| | Aaa | AAA | - | - | 14,773 | 2.07 |
| | Aaa | NR | - | - | 3,308 | 0.46 |
| | NR | AAA | 5,958 | 0.81 | - | - |
| Commercial mortgage-backed securities | Aaa | NR | 377 | 0.05 | 3,014 | 0.42 |
| Asset-backed securities | | | | | | |
| | Aaa | AAA | 45,739 | 6.25 | 87,146 | 12.23 |
| | Aaa | NR | 75,441 | 10.31 | 88,599 | 12.44 |
| | NR | AAA | 35,020 | 4.78 | 66,039 | 9.27 |
| Money market funds | Aaa | AAAm | 523 | 0.07 | 5,054 | 0.71 |
| | | | <u>\$ 731,969</u> | <u>100.00 %</u> | <u>\$ 712,582</u> | <u>100.00 %</u> |

NR = Not Rated

* U.S. Treasury issues and certain U.S. agency collateralized mortgage obligations are explicitly guaranteed by the United States government and are not considered to have credit risk.

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 2. 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 overall weighted average maturity of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, 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 at June 30, 2019 and 2018:

| <u>Security Types</u> | <u>2019</u> | | <u>2018</u> | |
|------------------------------------|--|-----------------------|--|-----------------------|
| | <u>Carrying Value (In Thousands)</u> | <u>WAM (Days)</u> | <u>Carrying Value (In Thousands)</u> | <u>WAM (Days)</u> |
| Repurchase agreements | \$ 473,200 | 3 | \$ 227,800 | 3 |
| U.S. Treasury notes | 24,927 | 125 | 90,330 | 73 |
| U.S. Treasury bills | 329,390 | 34 | 252,084 | 69 |
| Commercial paper | 2,236,198 | 57 | 1,868,900 | 36 |
| Negotiable certificates of deposit | 714,142 | 33 | 663,801 | 29 |
| Corporate bonds and notes | - | - | 18,078 | 21 |
| Money market funds | <u>178,619</u> | 3 | <u>143,067</u> | 3 |
| | <u>\$ 3,956,476</u> | 42 | <u>\$ 3,264,060</u> | 34 |

The overall weighted average maturity of the investments of the WV Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, 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 Government Money Market Pool:

| <u>Security Types</u> | <u>2019</u> | | <u>2018</u> | |
|-----------------------------|--|-----------------------|--|-----------------------|
| | <u>Carrying Value (In Thousands)</u> | <u>WAM (Days)</u> | <u>Carrying Value (In Thousands)</u> | <u>WAM (Days)</u> |
| Repurchase agreements | \$ 52,900 | 3 | \$ 48,100 | 3 |
| U.S. Treasury notes | - | - | 10,973 | 76 |
| U.S. Treasury bills | 57,785 | 65 | 23,950 | 43 |
| U.S. agency discount notes | 110,373 | 35 | 76,734 | 20 |
| U.S. agency bonds and notes | 30,975 | 75 | 52,300 | 17 |
| Money market funds | <u>111</u> | 3 | <u>247</u> | 3 |
| | <u>\$ 252,144</u> | 40 | <u>\$ 212,304</u> | 21 |

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 2. Cash and Cash Equivalents (Continued)

Interest Rate Risk (Continued)

The overall effective duration of the investments of the WV Short Term Bond Pool is limited to a +/- 20 percent band around the effective duration of the portfolio's benchmark (the ICE BofAML 1-3 US Corporate & Government Index). As of June 30, 2019, the effective duration of the benchmark was 657 days. Maximum effective duration of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool:

| <u>Security Types</u> | <u>2019</u> | | <u>2018</u> | |
|---|--|--|--|--|
| | <u>Carrying Value (In Thousands)</u> | <u>Effective Duration (Days)</u> | <u>Carrying Value (In Thousands)</u> | <u>Effective Duration (Days)</u> |
| Corporate floating-rate bonds and notes | \$ 38,121 | 286 | \$ 147,817 | 44 |
| Corporate fixed-rate bonds and notes | 365,352 | 847 | 178,097 | 696 |
| Commercial paper | - | - | 18,081 | 106 |
| U.S. Treasury notes and bonds | 115,292 | 816 | 86,189 | 472 |
| U.S. agency collateralized mortgage obligations | 50,146 | 976 | 32,546 | 56 |
| Commercial mortgage-backed securities | 377 | 15 | - | - |
| Collateralized mortgage obligations | 5,958 | 752 | 3,014 | 52 |
| Asset-backed securities | 156,200 | 393 | 241,784 | 374 |
| Money market funds | <u>523</u> | 1 | <u>5,054</u> | 1 |
| | <u>\$ 731,969</u> | 723 | <u>\$ 712,582</u> | 372 |

Other risks of investing

Other risks of investing can include concentration of credit risk, custodial credit risk, and foreign currency risk.

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

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

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 2. Cash and Cash Equivalents (Continued)

Other risks of investing (Continued)

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

Cash held in outside financial institutions

Limited cash and cash equivalents are held outside of the STO and the BTI and consist of demand deposits maintained with high credit quality financial institutions. At times, the balances with the institutions may exceed amounts covered by FDIC insurance limit; however, management believes that the financial institutions are credit worthy.

Note 3. Investments

| | 2019 | 2018 |
|--|--------------|--------------|
| Investments: | | |
| WVEDA - American Woodmark at BTI | \$ 1,736,472 | \$ 1,720,343 |
| Investments in Venture Capital Companies | - | 449,153 |
| Total | \$ 1,736,472 | \$ 2,169,496 |

WV Economic Development Authority - American Woodmark

This account holds a U.S. Treasury bond that matures on August 15, 2023. The Authority's Board of Directors approved this investment by resolution dated March 18, 2006. This security is not exposed to credit risk, custodial credit risk, concentration of credit risk, or foreign currency risk.

Investments in venture capital companies

A portion of the Authority's investment portfolio is comprised of various equity investments in venture capital companies. The investments described below involve risks not normally associated with investing, including interests in development stage companies. The risks associated with these investments are dependent on many factors, such as economic outlook, ability to raise capital, and building a customer base. Collateral values securing the venture capital investments are not readily determinable. The Authority informed all remaining investees during the year end June 30, 2019, that they would not fund any future capital calls. The Authority has committed and funded amounts in exchange for ownership interests in venture capital companies at June 30 as follows:

| | Fair Value | Total Funded | Total Unfunded Commitment |
|--------------------------------------|---------------|-----------------|------------------------------|
| Innova (WV High Tech Consortium, LP) | \$ - | \$ 734,620 | \$ - |
| Mountaineer Capital, LP | - | 3,800,000 | - |
| Novitas, LP | - | 3,950,000 | - |
| Total | \$ - | \$ 8,484,620 | \$ - |

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 3. Investments (Continued)

Investments in venture capital companies (Continued)

| <u>2018</u> | <u>Fair Value</u> | <u>Total Funded</u> | <u>Total Unfunded Commitment</u> |
|--------------------------------------|-------------------|---------------------|----------------------------------|
| Innova (WV High Tech Consortium, LP) | \$ 386,595 | \$ 734,620 | \$ 15,380 |
| Mountaineer Capital, LP | 53,675 | 3,800,000 | 200,000 |
| Novitas, LP | <u>8,883</u> | <u>3,950,000</u> | <u>50,000</u> |
| Total | <u>\$ 449,153</u> | <u>\$ 8,484,620</u> | <u>\$ 265,380</u> |

When the Authority's basis in the venture capital investments reaches zero, the Authority ceases reporting losses unless the Authority has guarantees of debt or future funding commitments.

Fund managers of the venture capital companies recommend individual investments based on predetermined selection criteria. These investments vary widely from start-up companies to operating businesses. Individual fund managers determine investment goals for their venture capital companies. To meet the unfunded commitments, the Authority has its investment securities available.

The following is a summary of remaining venture capital investments:

- Innova, LP is developing investment strategies and investigating potential investments.
- Mountaineer Capital, LP's investment portfolio consists of technology transfer, information technology, and software development.
- Novitas, LP has investments in healthcare, communications, and information technology.

The following is a reconciliation of the beginning and ending carrying balances for venture capital company investments using the Authority's assumptions during the years ended June 30, 2019 and 2018.

| | |
|---|----------------|
| Balance, July 1, 2017 | \$ 598,246 |
| Total net unrealized/realized losses included in earnings | (169,092) |
| Purchases, issuances, and settlements | <u>20,000</u> |
| Balance, June 30, 2018 | <u>449,154</u> |
| Total net unrealized/realized losses included in earnings | (449,154) |
| Purchases, issuances, and settlements | <u>-</u> |
| Balance, June 30, 2019 | <u>\$ -</u> |

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 4. Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, an exit price. Fair value is a market-based measurement, not an entity-specific measurement. The Authority categorizes fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America.

The fair value hierarchy established under GAAP categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 inputs - Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 inputs - Inputs - other than quoted prices included within Level 1 - that are observable for an asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The recurring fair value measurements of the investments of the Authority as of June 30, 2019 and 2018 were as follows (there were no Level 2 or Level 3 investments):

| | Level 1 Quoted Price in Active Market | |
|--------------------|--|---------------------|
| | 2019 | 2018 |
| U.S. Treasury Bond | <u>\$ 1,736,472</u> | <u>\$ 1,720,343</u> |

Note 5. Restricted Net Position

The West Virginia Legislature enacted legislation creating and funding a program to enhance the availability of loans from commercial lending institutions for economic development purposes. Cash balances relating to this program are invested in the BTI's amortized cost investment pools and have been set aside, together with interest earnings thereon, to meet these objectives by serving to guarantee portions of certain loans made for economic development purposes. See Note 12 to the financial statements for further disclosure of the guarantee program.

The West Virginia Legislature enacted legislation creating and funding a program to make available insurance on qualifying debt instruments for the purpose of the deployment of broadband in West Virginia, subject to certain legislative restrictions. Cash balances relating to this program are invested in the BTI's amortized cost investment pools and have been set aside, together with interest earnings thereon, to meet these objectives by serving this restrictive purpose. The restricted net position balances for these two programs amounted to \$7,325,215 and \$7,149,794 at June 30, 2019 and 2018, respectively.

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 6. Loans

Loans by class are summarized as follows:

| | 2019 | 2018 |
|-----------------------------------|----------------|----------------|
| Commercial: | | |
| Real estate | \$ 40,901,658 | \$ 40,546,364 |
| Real estate and equipment | 9,685,828 | 10,548,451 |
| Equipment | 8,831,075 | 9,181,809 |
| Service: | | |
| Real estate | 24,916,126 | 18,711,122 |
| Real estate and equipment | 3,931,890 | 3,155,886 |
| Equipment | 162,205 | 177,250 |
| Industrial: | | |
| Real estate | 24,841,552 | 24,274,980 |
| Real estate and equipment | 11,823,602 | 10,612,865 |
| Equipment | 13,887,493 | 16,643,945 |
| Total loans | 138,981,429 | 133,852,672 |
| Less allowance for loan loss | (7,600,000) | (6,600,000) |
| Loans receivable net of allowance | 131,381,429 | 127,252,672 |
| Less current portion | (14,909,427) | (12,559,294) |
| Noncurrent loans receivable | \$ 116,472,002 | \$ 114,693,378 |

The Authority's loans have been extended to customers operating in West Virginia.

Commercial loans may be collateralized by the assets underlying the borrower's business such as equipment, inventory, or real property. Commercial real estate loans are generally secured by the underlying real property. The ultimate collectability of a substantial portion of the Authority's loan portfolio is susceptible to changes in the local market conditions.

Note 7. Loan Credit Quality

Management monitors the credit quality of loans on an ongoing basis. Measurement of delinquency and past due status are based on the contractual terms of each loan.

For all loan classes, past due loans are reviewed on a monthly basis to identify loans for nonaccrual status. Generally, when full collection of the principal and interest is jeopardized, the loan is placed on nonaccrual. The accrual of interest income generally is discontinued when a loan becomes 90 days or more past due as to principal or interest. However, regardless of the delinquency status, if a loan is fully secured or in the process of collection and resolution of collection is expected in the near term (generally less than 90 days), then the loan may not be placed on nonaccrual. When interest accruals are discontinued, unpaid interest recognized in income in the current year is reversed, and unpaid interest accrued in prior years is charged to the allowance for loan losses. The Authority's method of income recognition for loans that are classified as nonaccrual is to recognize interest income on a cash basis or to apply the cash receipt to principal when the ultimate collectability of the principal is in doubt. Management may elect to continue the accrual of interest when the estimated net realized value of collateral exceeds the principal balance and accrued interest, and the loan is in the process of collection.

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 7. Loan Credit Quality (Continued)

Nonaccrual loans will not normally be returned to accrual status unless all past due principal and interest have been paid.

The following table sets forth the Authority's age analysis of its past due loans, segregated by class of loans:

| | <u>30-59 Days Past Due</u> | <u>60-89 Days Past Due</u> | <u>90 Days or More Past Due</u> | <u>Total Past Due</u> | <u>Current</u> | <u>Total Loans Receivable</u> | <u>90 Days or More and Accruing</u> |
|-------------------------------------|--------------------------------|--------------------------------|---|---------------------------|-----------------------|-----------------------------------|---|
| As of June 30, 2019: | | | | | | | |
| Secured by real estate: | | | | | | | |
| Commercial | \$ - | \$ - | \$ 171,673 | \$ 171,673 | \$ 40,729,985 | \$ 40,901,658 | \$ 171,673 |
| Service | - | - | 17,553,230 | 17,553,230 | 7,362,896 | 24,916,126 | 11,566,699 |
| Industrial | - | - | 1,794,864 | 1,794,864 | 23,046,688 | 24,841,552 | - |
| Secured by equipment: | | | | | | | |
| Commercial | 43,921 | - | - | 43,921 | 8,787,154 | 8,831,075 | - |
| Service | - | - | - | - | 162,205 | 162,205 | - |
| Industrial | - | - | 296,244 | 296,244 | 13,591,249 | 13,887,493 | 296,244 |
| Secured by real estate & equipment: | | | | | | | |
| Commercial | - | - | - | - | 9,685,828 | 9,685,828 | - |
| Service | - | - | - | - | 3,931,890 | 3,931,890 | - |
| Industrial | - | - | <u>473,537</u> | <u>473,537</u> | <u>11,350,065</u> | <u>11,823,602</u> | <u>473,537</u> |
| Total loans | <u>\$ 43,921</u> | <u>\$ -</u> | <u>\$ 20,289,548</u> | <u>\$ 20,333,469</u> | <u>\$ 118,647,960</u> | <u>\$ 138,981,429</u> | <u>\$ 12,508,153</u> |

| | <u>30-59 Days Past Due</u> | <u>60-89 Days Past Due</u> | <u>90 Days or More Past Due</u> | <u>Total Past Due</u> | <u>Current</u> | <u>Total Loans Receivable</u> | <u>90 Days or More and Accruing</u> |
|-------------------------------------|--------------------------------|--------------------------------|---|---------------------------|-----------------------|-----------------------------------|---|
| As of June 30, 2018: | | | | | | | |
| Secured by real estate: | | | | | | | |
| Commercial | \$ - | \$ - | \$ 171,673 | \$ 171,673 | \$ 40,374,691 | \$ 40,546,364 | \$ 171,673 |
| Service | - | - | 6,181,783 | 6,181,783 | 12,529,339 | 18,711,122 | - |
| Industrial | - | - | 1,893,064 | 1,893,064 | 22,381,916 | 24,274,980 | - |
| Secured by equipment: | | | | | | | |
| Commercial | - | 52,130 | - | 52,130 | 9,129,678 | 9,181,808 | - |
| Service | - | - | - | - | 177,250 | 177,250 | - |
| Industrial | - | - | - | - | 16,643,945 | 16,643,945 | - |
| Secured by real estate & equipment: | | | | | | | |
| Commercial | - | - | 501,055 | 501,055 | 10,047,396 | 10,548,451 | - |
| Service | - | - | - | - | 3,155,886 | 3,155,886 | - |
| Industrial | - | <u>445,340</u> | <u>194,257</u> | <u>639,597</u> | <u>9,973,268</u> | <u>10,612,865</u> | <u>194,257</u> |
| Total loans | <u>\$ -</u> | <u>\$ 497,470</u> | <u>\$ 8,941,832</u> | <u>\$ 9,439,302</u> | <u>\$ 124,413,369</u> | <u>\$ 133,852,672</u> | <u>\$ 365,930</u> |

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 7. Loan Credit Quality (Continued)

The Authority generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred, or the loans reach a certain number of days past due. The following table sets forth the Authority's nonaccrual loans, segregated by class of loans (as applicable) as of:

| | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|---------------------------------------|----------------------|----------------------|
| Secured by real estate: | | |
| Commercial | \$ 1,447,550 | \$ - |
| Service | 5,986,532 | 6,181,783 |
| Industrial | 1,794,864 | 1,893,064 |
| Secured by real estate and equipment: | | |
| Commercial | <u>-</u> | <u>501,055</u> |
| Total | <u>\$ 9,228,946</u> | <u>\$ 8,575,902</u> |

The Authority assigns credit quality indicators of pass, special mention, substandard, and doubtful to its loans. The loans are internally assigned a grade based on a combination of the known creditworthiness of the borrower and on the loan's delinquency status. The Authority updates these grades on a semi-annual basis.

A loan classified as pass has strong asset quality and liquidity along with a multi-year track record of profitability.

Special mention loans have a potential weakness that deserves management's close attention. If left unmonitored, these potential weaknesses may result in deterioration of the repayment prospects for such loans or the borrower's credit position at some future date. Adverse economic or market conditions may also support a special mention rating. Other nonfinancial reasons for rating a credit exposure as special mention can include known borrower problems, pending litigation, or lending agreement issues.

A substandard loan contains weaknesses that, if left uncorrected, create some degree of doubt as to the likelihood of full collection of principal and interest. These loans require intensive supervision by management. Such loans are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization. Repayment may depend on collateral or other credit risk mitigants.

A loan classified as doubtful exhibits all the weaknesses inherent in one classified as substandard with the additional characteristic that the weaknesses make its collection in full, based on currently existing facts, conditions, and values, highly questionable and improbable. A doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the credit, its classification as loss is deferred at the present time. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain operationally solvent. Specific pending events may include mergers, acquisitions, liquidations, capital injections, the perfection of liens of additional collateral, the valuation of collateral, and refinancing. Loans classified as doubtful are also considered impaired. Generally, credit exposures are charged-off prior to being classified as doubtful.

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 7. Loan Credit Quality (Continued)

Loans classified as loss are loans with expected loss of entire principle balance. The loan may be carried in this classified status if circumstances indicate a remote possibility that the amount will be repaid.

The following table sets forth the Authority's credit quality indicators information, segregated by class of loans (there were no loans graded as doubtful):

| <u>June 30, 2019</u> | <u>Pass</u> | <u>Special Mention</u> | <u>Sub- Standard</u> | <u>Total</u> |
|--|-----------------------------|-----------------------------|----------------------------|------------------------------|
| Secured by real estate: | | | | |
| Commercial | \$ 17,589,017 | \$ 23,312,641 | \$ - | \$ 40,901,658 |
| Service | 7,362,896 | 11,566,698 | 5,986,532 | 24,916,126 |
| Industrial | 15,762,308 | 7,284,380 | 1,794,864 | 24,841,552 |
| Secured by equipment: | | | | |
| Commercial | 8,787,154 | 43,921 | - | 8,831,075 |
| Service | 162,205 | - | - | 162,205 |
| Industrial | 13,591,249 | 296,244 | - | 13,887,493 |
| Secured by real estate and equipment: | | | | |
| Commercial | 4,053,333 | 5,632,495 | - | 9,685,828 |
| Service | 3,931,890 | - | - | 3,931,890 |
| Industrial | <u>11,282,929</u> | <u>362,807</u> | <u>177,866</u> | <u>11,823,602</u> |
| Total | <u>\$ 82,522,981</u> | <u>\$ 48,499,186</u> | <u>\$ 7,959,262</u> | <u>\$ 138,981,429</u> |
| | | | | |
| <u>June 30, 2018</u> | <u>Pass</u> | <u>Special Mention</u> | <u>Sub- Standard</u> | <u>Total</u> |
| Secured by real estate: | | | | |
| Commercial | \$ 19,490,056 | \$ 21,056,309 | \$ - | \$ 40,546,365 |
| Service | 12,529,338 | 1 | 6,181,783 | 18,711,122 |
| Industrial | 11,577,609 | 10,804,306 | 1,893,064 | 24,274,979 |
| Secured by equipment: | | | | |
| Commercial | 9,181,809 | - | - | 9,181,809 |
| Service | 177,250 | - | - | 177,250 |
| Industrial | 14,230,746 | 2,413,199 | - | 16,643,945 |
| Secured by real estate and equipment: | | | | |
| Commercial | 7,657,630 | 2,389,766 | 501,055 | 10,548,451 |
| Service | 3,155,886 | - | - | 3,155,886 |
| Industrial | <u>8,537,234</u> | <u>1,881,374</u> | <u>194,257</u> | <u>10,612,865</u> |
| Total | <u>\$ 86,537,558</u> | <u>\$ 38,544,955</u> | <u>\$ 8,770,159</u> | <u>\$ 133,852,672</u> |

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 7. Loan Credit Quality (Continued)

Loans are designated as impaired when, in the opinion of management, based on current information and events, the collection of principal and interest in accordance with the loan contract is doubtful. Typically, such loans have exhibited a sustained period of delinquency or there have been significant events (such as bankruptcy, eminent foreclosure, or natural disasters) that impact repayment probability. Impairment is evaluated on an individual loan basis. Consistent with the Authority's existing method of income recognition for loans, interest on impaired loans, except those classified as nonaccrual, is recognized as income using the accrual method. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

The following table sets forth the Authority's impaired loans information, segregated by class of loans (there were no amounts of recognized interest income on these loans):

| June 30, 2019 | Unpaid Principal Balance | Related Allowance |
|---|--------------------------------|----------------------|
| With an allowance recorded: | | |
| Secured by real estate: | | |
| Commercial | \$ 1,447,550 | \$ 250,000 |
| Service | 5,986,532 | 650,000 |
| Industrial | 1,794,864 | 1,000,000 |
| Total secured by real estate | \$ 9,228,946 | \$ 1,900,000 |
| | | |
| June 30, 2018 | Unpaid Principal Balance | Related Allowance |
| With an allowance recorded: | | |
| Secured by real estate: | | |
| Service | \$ 6,181,783 | \$ 500,000 |
| Industrial | 1,893,064 | 1,000,000 |
| Total secured by real estate | \$ 8,074,847 | \$ 1,500,000 |
| | | |
| Secured by real estate and equipment: | | |
| Commercial | 501,055 | 200,000 |
| Total secured by real estate and equipment | \$ 501,055 | \$ 200,000 |

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 8. Allowance for Credit Losses

The allowance for loan losses is management’s estimate of the probable credit losses inherent in the loan portfolio. Management’s evaluation of the adequacy of the allowance for loan losses and the appropriate provision for credit losses is based upon a semi-annual evaluation of the portfolio. This evaluation is inherently subjective and requires significant estimates, including the amounts and timing of estimated future cash flows and consideration of current economic trends, all of which are susceptible to constant and significant change. Allocations are made for specific loans based upon management’s estimate of the borrowers’ ability to repay and other factors impacting collectability. In addition, a portion of the allowance accounts is for the inherent imprecision in the allowance for credit losses analysis. During the year ended June 30, 2019, there were no material changes to the accounting policy or methodology related to the allowance for loan losses.

Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses. When a loan or a portion of a loan is identified to contain a loss, a charge-off recommendation is directed to management to charge off all or a portion of that loan.

If secured, the charge-off is generally made to reduce the loan balance to a level equal to the liquidation value of the collateral when payment of principal and interest is 120 days delinquent. Any loan, on which a principal or interest payment has not been made within 30 days, is reviewed monthly for appropriate action.

The Authority considers the allowance for loan losses of \$7,600,000 and \$6,600,000 adequate to cover loan losses inherent in the loan portfolio as of June 30, 2019 and 2018, respectively. The following table presents by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans.

| <u>June 30, 2019</u> | <u>Commercial</u> | <u>Service</u> | <u>Industrial</u> | <u>Unallocated</u> | <u>Total</u> |
|---|----------------------|----------------------|----------------------|---------------------|-----------------------|
| Allowance for credit losses: | | | | | |
| Beginning balance | \$ 600,000 | \$ 500,000 | \$ 2,670,000 | \$ 2,830,000 | \$ 6,600,000 |
| Charge-offs | (501,055) | - | - | - | (501,055) |
| Recoveries | 2,825 | - | 31,189 | - | 34,014 |
| Provision | <u>898,230</u> | <u>750,000</u> | <u>(451,189)</u> | <u>270,000</u> | <u>1,467,041</u> |
| Ending balance | <u>\$ 1,000,000</u> | <u>\$ 1,250,000</u> | <u>\$ 2,250,000</u> | <u>\$ 3,100,000</u> | <u>\$ 7,600,000</u> |
| Ending balance: Individually evaluated for impairment | <u>\$ 1,000,000</u> | <u>\$ 1,250,000</u> | <u>\$ 2,250,000</u> | <u>\$ -</u> | <u>\$ 4,500,000</u> |
| Ending balance: Collectively evaluated for impairment | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,100,000</u> | <u>\$ 3,100,000</u> |
| Loans receivable: | | | | | |
| Ending balance | <u>\$ 59,418,561</u> | <u>\$ 29,010,221</u> | <u>\$ 50,552,647</u> | <u>\$ -</u> | <u>\$ 138,981,429</u> |

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 8. Allowance for Credit Losses (Continued)

| June 30, 2018 | Commercial | Service | Industrial | Unallocated | Total |
|---|----------------------|---------------------|---------------------|---------------------|----------------------|
| Allowance for credit losses: | | | | | |
| Beginning balance | \$ 850,000 | \$ 600,000 | \$ 3,740,000 | \$ 1,410,000 | \$ 6,600,000 |
| Charge-offs | - | (123,526) | (883,821) | - | (1,007,347) |
| Recoveries | 4,001 | - | 31,189 | - | 35,190 |
| Provision | <u>(254,001)</u> | <u>23,526</u> | <u>(217,368)</u> | <u>1,420,000</u> | <u>972,157</u> |
| Ending balance | <u>\$ 600,000</u> | <u>\$ 500,000</u> | <u>\$ 2,670,000</u> | <u>\$ 2,830,000</u> | <u>\$ 6,600,000</u> |
| Ending balance: Individually evaluated for impairment | | | | | |
| | <u>\$ 600,000</u> | <u>\$ 500,000</u> | <u>\$ 2,670,000</u> | <u>\$ -</u> | <u>\$ 3,770,000</u> |
| Ending balance: Collectively evaluated for impairment | | | | | |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,830,000</u> | <u>\$ 2,830,000</u> |
| Loans receivable: | | | | | |
| Ending balance | <u>\$ 60,276,624</u> | <u>\$22,044,259</u> | <u>\$51,531,789</u> | <u>\$ -</u> | <u>\$133,852,672</u> |

Note 9. Capital Asset and Leasing Activities

The Authority leases land, buildings, and equipment to commercial entities which are accounted for as operating leases. The leases expire over the next 1 to 10 years. Lessees of the property have the option to purchase the property at the end of the lease term at designated prices which are not considered bargain prices.

Real estate, property, and equipment include the following at June 30:

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Held for lease: | | |
| Land | \$ 7,276,963 | \$ 7,276,963 |
| Buildings and improvements | 29,986,056 | 29,986,056 |
| Equipment | <u>234,627</u> | <u>203,420</u> |
| | 37,497,646 | 37,466,439 |
| Less accumulated depreciation - buildings | (13,944,777) | (12,894,903) |
| Less accumulated depreciation - equipment | <u>(183,610)</u> | <u>(175,124)</u> |
| | <u>\$ 23,369,259</u> | <u>\$ 24,396,412</u> |

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 9. Capital Asset and Leasing Activities (Continued)

Capital asset activity for the years ended June 30, 2019 and 2018, was as follows:

| June 30, 2019 | Balance | Additions | Reductions | Balance |
|-------------------------------|----------------------|----------------------|----------------------|---------------------|
| Land held for lease | \$ 7,276,963 | \$ - | \$ - | \$ 7,276,963 |
| Building and improvements | 29,986,056 | - | - | 29,986,056 |
| Equipment | <u>203,420</u> | <u>33,048</u> | <u>(1,841)</u> | <u>234,627</u> |
| | 37,466,439 | 33,048 | (1,841) | 37,497,646 |
| Less accumulated depreciation | | | | |
| Building | (12,894,903) | (1,049,874) | | (13,944,777) |
| Equipment | <u>(175,124)</u> | <u>(10,327)</u> | <u>1,841</u> | <u>(183,610)</u> |
| | <u>\$ 24,396,412</u> | <u>\$(1,027,153)</u> | <u>\$ -</u> | <u>\$23,369,259</u> |
| | | | | |
| June 30, 2018 | Balance | Additions | Reductions | Balance |
| Land held for lease | \$ 12,688,880 | \$ 1,178,842 | \$(6,590,759) | \$ 7,276,963 |
| Building and improvements | 35,009,137 | 1,038,022 | (6,061,103) | 29,986,056 |
| Equipment | <u>27,973,350</u> | <u>6,995</u> | <u>(27,776,925)</u> | <u>203,420</u> |
| | 75,671,367 | 2,223,859 | (40,428,787) | 37,466,439 |
| Less accumulated depreciation | | | | |
| Building | (17,190,362) | (1,047,741) | 5,343,200 | (12,894,903) |
| Equipment | <u>(27,939,792)</u> | <u>(12,257)</u> | <u>27,776,925</u> | <u>(175,124)</u> |
| | <u>\$ 30,541,213</u> | <u>\$ 1,163,861</u> | <u>\$(7,308,662)</u> | <u>\$24,396,412</u> |

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

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Total minimum lease payments receivable | \$ 64,046,930 | \$ 65,885,315 |
| Less unearned interest | <u>(10,552,446)</u> | <u>(11,430,009)</u> |
| Total | 53,494,484 | 54,455,306 |
| Less current portion | <u>(5,843,013)</u> | <u>(5,738,342)</u> |
| Total noncurrent portion | <u>\$ 47,651,471</u> | <u>\$ 48,716,964</u> |

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 9. Capital Asset and Leasing Activities (Continued)

At June 30, 2019, future minimum lease payments receivable under direct financing leases and non-cancellable operating leases in excess of one year are as follows:

| June 30 | Operating Leases | Direct Financing Leases | Total |
|------------|---------------------|-------------------------------|---------------|
| 2020 | \$ 2,522,794 | \$ 7,518,247 | \$ 10,041,041 |
| 2021 | 2,522,794 | 7,518,247 | 10,041,041 |
| 2022 | 2,408,794 | 7,518,247 | 9,927,041 |
| 2023 | 2,408,794 | 7,518,247 | 9,927,041 |
| 2024 | 1,590,968 | 5,131,183 | 6,722,151 |
| Thereafter | 4,772,904 | 28,842,759 | 33,615,663 |
| | \$ 16,227,048 | \$ 64,046,930 | \$ 80,273,978 |

Lease revenue includes interest from direct financing leases of \$1,798,647 and \$1,608,663 for the years ended June 30, 2019 and 2018, respectively.

Note 10. Loans Payable

The Authority receives financing from various funding sources in the form of direct borrowings. There are no direct placements. Direct borrowing includes the following:

| June 30 | |
|---------|------|
| 2019 | 2018 |

Revolving loan agreement with the West Virginia Board of Treasury Investments to borrow up to \$175 million to be re-loaned for economic development purposes, interest equal to the twelve-month average of the Board's yield on its cash liquidity pool, which was .38% for July 2017 and .89% for the remainder of fiscal year 2018, and 1.60% for fiscal year 2019 and adjustable annually thereafter on July 1 of each consecutive year, monthly payments of principal and interest payable in an amount sufficient to repay the outstanding principal balance over 10 years, secured by a security interest in the investments derived from the loan.

| | |
|----------------|----------------|
| \$ 117,370,977 | \$ 106,680,600 |
|----------------|----------------|

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 10. Loans Payable (Continued)

| | June 30 | |
|--|-----------|-----------|
| | 2019 | 2018 |
| Revolving loan agreement with the West Virginia Board of Treasury Investments to borrow up to \$50 million to provide loan insurance for broadband projects, interest equal to the twelve-month average of the Board's yield on its money market pool, which was 1.3% and 2.26% at the end of fiscal year 2018 and 2019, respectively, and adjustable quarterly thereafter, quarterly payments of interest will be made as long as a principal balance remains outstanding. Note repayments are dependent upon moneys received from the broadband loan insurance recipients. | 1,480,000 | 1,480,000 |
| Note payable to West Virginia Board of Treasury Investments, non-recourse not to exceed \$25 million, interest at 3% per annum, principal due in annual installments through June 30, 2022, unsecured. Note repayments are dependent upon the proceeds received from the investments in venture capital funds. | 324,155 | 494,414 |
| Note payable to West Virginia Infrastructure and Jobs Development Council due in monthly installments of principal of \$10,417, final payment due October 1, 2023, note is noninterest bearing and secured by real estate. | 552,021 | 677,025 |
| Note payable to West Virginia Infrastructure and Jobs Development Council due in monthly installments of \$20,703, final payment due March 1, 2024, interest rate at 3% and secured by real estate. | 1,098,465 | 1,310,480 |
| Note payable to West Virginia Infrastructure and Jobs Development Council due in monthly installments of \$16,641, final payment due June 1, 2029, interest rate at 3% and secured by real estate. | 1,723,130 | 1,868,749 |
| Note payable to West Virginia Infrastructure and Jobs Development Council due in monthly installments of \$29,703, final payment made July 12, 2019, interest rate at 3% and secured by equipment. | 28,000 | 377,875 |

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 10. Loans Payable (Continued)

| | June 30 | |
|--|-----------------------|-----------------------|
| | 2019 | 2018 |
| Note payable to West Virginia Infrastructure and Jobs Development Council with payments deferred until March 1, 2021, final payment due February 1, 2025, interest rate at 3% and secured by equipment. Principal and interest were forgiven during fiscal year 2019 as performance standards defined in the agreement were met. | - | 1,500,000 |
| Note payable to West Virginia Infrastructure and Jobs Development Council with payments deferred until January 1, 2019, final payment due June 1, 2026, interest rate at 3% and secured by equipment. Principal and interest were forgiven during fiscal year 2019 as performance standards defined in the agreement were met. | - | 750,000 |
| Total | 122,576,748 | 115,139,143 |
| Less current portion | (10,966,410) | (10,747,916) |
| Long term portion | <u>\$ 111,610,338</u> | <u>\$ 104,391,227</u> |

| June 30 | Principal | Interest | Total |
|-----------|-----------------------|----------------------|-----------------------|
| 2020 | \$ 10,966,410 | \$ 2,810,078 | \$ 13,776,488 |
| 2021 | 11,251,757 | 2,613,789 | 13,865,546 |
| 2022 | 11,854,841 | 2,334,861 | 14,189,702 |
| 2023 | 11,816,616 | 2,048,929 | 13,865,545 |
| 2024 | 11,969,888 | 1,760,647 | 13,730,535 |
| 2025-2029 | 63,237,236 | 4,226,405 | 67,463,641 |
| 2030-2034 | - | 176,957 | 176,957 |
| 2035-2039 | 1,480,000 | 179,864 | 1,659,864 |
| | <u>\$ 122,576,748</u> | <u>\$ 16,151,530</u> | <u>\$ 138,728,278</u> |

Changes in loans payable for the years ended June 30, 2019 and 2018 were as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---------------|-----------------------|----------------------|------------------------|-----------------------|-----------------------------------|
| June 30, 2019 | <u>\$ 115,139,143</u> | <u>\$ 19,975,000</u> | <u>\$ (12,537,395)</u> | <u>\$ 122,576,748</u> | <u>\$ 10,966,410</u> |
| June 30, 2018 | <u>\$ 134,736,465</u> | <u>\$ 4,585,000</u> | <u>\$ (24,182,322)</u> | <u>\$ 115,139,143</u> | <u>\$ 10,747,916</u> |

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 11. Related Party Transactions with the State of West Virginia

The Authority enters into certain transactions with various agencies of the State of West Virginia for financing, employee benefits, and other services.

Amounts due to other State of West Virginia agencies as of June 30 consisted of the following:

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------|-----------------------|
| Balances included in loans payable: | | |
| WV Infrastructure & Jobs Development Council | \$ 3,401,616 | \$ 6,484,129 |
| WV Board of Treasury Investments | 119,175,132 | 108,655,014 |
| Balances included in amount due to the State Agencies: | | |
| Lottery Commission | 8,597 | 8,597 |
| Development Office | 273,667 | 207,000 |
| Governor's Office | <u>43,351</u> | <u>43,351</u> |
| | <u>\$ 122,902,363</u> | <u>\$ 115,398,091</u> |

Note 12. Commitments and Contingencies

Commitments to extend credit are agreements between the Authority and borrowers which generally require the borrowers to meet certain conditions regarding the extension of credit and which expire on specified dates. In making these commitments, the Authority evaluates each borrower's creditworthiness. Upon extension of credit, the Authority requires the loan to be collateralized by equipment and/or real estate. At June 30, 2019, the Authority had committed to make loans of \$52,072,010. In order to fund these loans, the Authority will borrow \$46,805,160 from the BTI. The remaining \$5,266,850 will be provided from the Authority's available funds.

The Authority guarantees repayment of portions of certain loans made for economic development purposes under its Loan Insurance Program. These guarantees represent conditional commitments by the Authority to guarantee the performance of a borrower to a third party lender. The Authority annually reviews the outstanding Loan Insurance Program obligations with its established loan loss allowance account, and records a liability if and when the Authority recognizes that a claim is likely. As of June 30, 2019, the Authority's maximum exposure to financial guarantees expiring at various intervals through March 2028, is \$3,703,781. As of June 30, 2019 and 2018, loans of \$5,463,741 and \$5,285,070, respectively, were guaranteed under this program. Since the inception of the Loan Insurance Program, the maximum liability to the Authority, assuming no collateral value, has been less than the specified cash reserves set aside for future claims and liabilities. During the years ended June 30, 2019 and 2018, the Authority did not pay any claims under the Loan Insurance Program.

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 13. Risk Management

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

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

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

The Authority carries workers compensation insurance coverage through a commercial carrier. The carrier is paid a quarterly premium to provide compensation for injuries sustained in the course of employment. In exchange for the payment of premiums, the Authority has transferred its risks for job-related injuries of employees.

There have been no changes in the coverages or amounts of coverage and there have been no claims in excess of coverage related to the Authority's risk management plan for the years ended June 30, 2019 and 2018.

Note 14. Pension Plan

Plan Description

The Authority contributes to the PERS, a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board (CPRB). PERS covers substantially all employees of the State and its component units, as well as employees of participating non-state governmental entities who are not participants of another state or municipal retirement system. Benefits under PERS include retirement, death and disability benefits, and have been established and may be amended by action of the State Legislature. The CPRB issues a publicly available financial report that includes financial statements for PERS that may be obtained at www.wvretirement.com.

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 14. Pension Plan (Continued)

Benefits Provided

PERS provides retirement benefits as well as death and disability benefits. Qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. For all employees hired July 1, 2015 and later, qualification for normal retirement is age 62 with 10 years of service. The straight-life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. Average salary is the average of the highest annual compensation during any period of three consecutive years within the last fifteen years of earnings. For all employees hired July 1, 2015 and later, average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings. Terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired July 1, 2015 and later, this age increases to 64.

Contributions

Contributions as a percentage of payroll for members are established by statutes, subject to legislative limitations and are not actuarially determined. Contributions as a percentage of payroll for employers are established by the CPRB. Current funding policy requires contributions, consisting of member contributions of 4.5% of annual earnings and employer contributions of 10%, 11%, and 12%, of covered payroll for the years ended June 30, 2019, 2018, and 2017, respectively. All members hired after July 1, 2015, will contribute 6% of annual earnings.

During the years ended June 30, 2019, 2018, and 2017, the Authority's contributions to PERS required and made were approximately \$57,117, \$70,118, and \$75,237, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019 and 2018, respectively, the Authority reported a liability of \$118,736 and \$196,216 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2019, was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, rolled forward to the measurement date of June 30, 2018. The Authority's proportion of the net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all employers participating in PERS for the year ended June 30, 2018. At June 30, 2018, the Authority's proportion was .045977%, which was an increase of .000519 from its proportion measured as of June 30, 2017.

For the years ended June 30, 2019 and 2018, respectively, the Authority recognized pension expense of \$19,634 and \$47,927, respectively. At June 30, 2019 and 2018, respectively, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 14. Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

| | June 30, 2019 | |
|--|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Net difference between projected and actual earnings on pension plan investments | \$ - | \$ 69,871 |
| Difference between expected and actual experience | 5,890 | 294 |
| Changes in assumptions | - | - |
| Changes in proportion and differences between the Authority's contributions and proportionate share of contributions | 5,763 | 514 |
| The Authority's contributions made subsequent to the measurement date of June 30, 2018 | 57,117 | - |
| Total | \$ 68,770 | \$ 70,679 |

| | June 30, 2018 | |
|--|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Net difference between projected and actual earnings on pension plan investments | \$ - | \$ 47,703 |
| Difference between expected and actual experience | 17,462 | 434 |
| Changes in assumptions | - | 10,178 |
| Changes in proportion and differences between the Authority's contributions and proportionate share of contributions | 9,835 | 978 |
| The Authority's contributions made subsequent to the measurement date of June 30, 2017 | 70,118 | - |
| Total | \$ 97,415 | \$ 59,293 |

Deferred outflows of resources related to pensions of \$57,117 resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 14. Pension Plan (Continued)

Year ending June 30,

| | | |
|------|----|----------|
| 2020 | \$ | 11,348 |
| 2021 | | (7,890) |
| 2022 | | (50,656) |
| 2023 | | (11,828) |

Actuarial Assumptions

The total pension liability in the June 30, 2018 and 2017 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|---|
| Inflation | 3.0 percent |
| Salary increases | 3.0 –6.0 percent, average, including inflation |
| Investment rate of return | 7.5 percent, net of pension plan investment expense |

Mortality rates were based on 100% of RP-2000 Non-Annuitant, scale AA fully generational for active employees, 110% of the RP-2000 Non-Annuitant, scale AA fully generational for retired healthy males, 101% of RP-2000 Non-Annuitant, scale AA fully generational for retired healthy females, 96% of RP-2000 Disabled Annuitant scale AA for disabled males, and 107% of RP-2000 Disabled Annuitant, scale AA for disabled females.

An experience study, which was based on years 2009 through 2014, was completed prior to the 2015 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using the building block method in which estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. Best estimates of long-term geometric rates of return are summarized in the following table:

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 14. Pension Plan (Continued)

Actuarial Assumptions (Continued)

| Asset Class | Target Allocation | Long-term Expected Rate of Return | Weighted Average Expected Real Rate of Return |
|----------------------|-------------------|-----------------------------------|---|
| Domestic equity | 27.5% | 4.5% | 1.24% |
| International equity | 27.5% | 8.6% | 2.37% |
| Fixed income | 15.0% | 3.3% | 0.50% |
| Real estate | 10.0% | 6.0% | 0.60% |
| Private equity | 10.0% | 6.4% | 0.64% |
| Hedge funds | 10.0% | 4.0% | 0.40% |
| | | | |
| Total | 100.00% | | 5.75% |
| Inflation (CPI) | | | 2.10% |
| | | | <u>7.85%</u> |

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employer contributions will continue to follow the current funding policies. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|--|-----------------------|---------------------------------|-----------------------|
| Authority's proportionate share of the net pension liability (asset) | \$ 478,172 | \$ 118,736 | \$ (185,343) |

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 15. Other Post Employment Benefits (OPEB)

Plan Description

The West Virginia Other Postemployment Benefit Plan (the OPEB Plan) is a cost-sharing, multiple-employer, defined benefit other post-employment benefit plan and covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code Section 5-16D-2 (the Code). The financial activities of the OPEB Plan are accounted for in the West Virginia Retiree Health Benefit Trust Fund (RHBT), a fiduciary fund of the State of West Virginia. The OPEB Plan is administered by a combination of the West Virginia Public Employees Insurance Agency (PEIA) and the RHBT staff. OPEB Plan benefits are established and revised by PEIA and the RHBT management with approval of their Finance Board. The PEIA issues a publically available financial report of the RHBT that can be obtained at www.peia.wv.gov or by writing to the West Virginia Public Employees Insurance Agency, 601 57th Street, SE Suite 2, Charleston, WV 25304

Benefits Provided

The Authority's employees who retire are eligible for PEIA health and life benefits, provided they meet the minimum eligibility requirements of the PERS or meet certain other eligibility requirements of other West Virginia Consolidated Public Retirement Board CPRB sponsored retirement plans. RHBT provides medical and prescription drug insurance and life insurance benefits to those qualified participants. Life insurance is provided through a vendor and is fully funded by member contributions. The medical and prescription drug insurance is provided through two options; Self-Insured Preferred Provider Benefit Plan - primarily for non-Medicare-eligible retirees and spouses or External Managed Care Organizations - primarily for Medicare-eligible retirees and spouses.

The RHBT Medicare-eligible retired employees and their Medicare-eligible dependents receive medical and drug coverage from a Medicare Advantage Plan administered by a vendor. Under this arrangement, the vendor assumes the financial risk of providing comprehensive medical and drug coverage with limited copayments. Non-Medicare retirees continue enrollment in PEIA's Preferred Provider Benefit or the Managed Care Option. The RHBT collects employer contributions for Managed Care Organization (MCO) participants and remits capitation payments to the MCO. Survivors of retirees have the option of purchasing the medical and prescription drug coverage.

Eligible participants hired after June 30, 2010, will be required to fully fund premium contributions upon retirement. The Plan is a closed plan to new entrants.

Contributions

West Virginia Code section 5-16D-6 assigns to the PEIA Finance Board the authority to establish and amend contribution requirements of the plan members and the participating employers. Participating employers are required by statute to contribute at a rate assessed each year by the RHBT. The annual contractually required rate is the same for all participating employers. Employer contributions represent what the employer was billed during the respective year for their portion of the pay as you go premiums, commonly referred to as paygo, retiree leave conversion billings, and other matters, including billing adjustments.

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 15. Other Post Employment Benefits (OPEB) (Continued)

Contributions (continued)

The annual contractually required per active policyholder per month rates for State non-general funded agencies and other participating employers effective June 30, 2019, 2018, and 2017, respectively, were:

| | 2019 | 2018 | 2017 | 2017 |
|---------------|-------------|-------------|------------------|-----------------|
| | | | 1/1/17 – 6/30/17 | 7/1/16-12/31/16 |
| Paygo Premium | \$ 183 | \$ 177 | \$ 135 | \$ 196 |

Contributions to the OPEB plan from the Authority were \$19,733, \$26,930 and \$41,358 for the years ended June 30, 2019, 2018, and 2017 respectively.

Members retired before July 1, 1997, pay retiree healthcare contributions at the highest sponsor subsidized rate, regardless of their actual years of service. Members retired between July 1, 1997 and June 30, 2010, pay a subsidized rate depending on the member's years of service. Members hired on or after July 1, 2010, pay retiree healthcare contributions with no sponsor provided implicit or explicit subsidy.

Retiree leave conversion contributions from the employer depend on the retiree's date of hire and years of service at retirement as described below;

- Members hired before July 1, 1988, may convert accrued sick or leave days into 100% of the required retiree healthcare contribution.
- Members hired from July 1, 1988, to June 30, 2001, may convert accrued sick or leave days into 50% of the required retiree healthcare contribution.

The conversion rate is two days of unused sick and annual leave days per month for single healthcare coverage and three days of unused sick and annual leave days per month for family healthcare coverage.

Contributions by Nonemployer Contributing Entities in Special Funding Situations

The State of West Virginia is a nonemployer contributing entity that provides funding through SB 419, effective July 1, 2012, amended by West Virginia Code §11-21-96. The State provides a supplemental pre-funding source dedicating \$30 million annually to the RHBT Fund from annual collections of the Personal Income Tax Fund and dedicated for payment of the unfunded liability of the RHBT. The \$30 million transferred pursuant to this Code shall be transferred until the Governor certifies to the Legislature that an independent actuarial study has determined that the unfunded liability of RHBT has been provided for in its entirety or July 1, 2037, whichever date is later. This funding is to the advantage of all RHBT contributing employers.

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 15. Other Post Employment Benefits (OPEB) (Continued)

Contributions by Nonemployer Contributing Entities in Special Funding Situations (Continued)

The State is a nonemployer contributing entity that provides funding through West Virginia State Code §11B-2-32. The Financial Stability Fund is a plan to transfer an annual amount of \$5 million to the RHBT from special revenue funds to be used to lower retiree premiums, to help reduce benefit cuts, to help reduce premium increases or any combination thereof. The \$5 million transferred pursuant to this Code shall be transferred annually into the RHBT through June 30, 2020. This funding is to the advantage of all RHBT contributing employers.

The State is a nonemployer contributing entity that provides funding through SB 469 which was passed February 10, 2012, granting OPEB liability relief to the 55 County Boards of Education effective July 1, 2012. The public school support plan (PSSP) is a basic foundation allowance program that provides funding to the local school boards for "any amount of the employer's annual required contribution allocated and billed to the county boards for employees who are employed as professional employees, employees who are employed as service personnel and employees who are employed as professional student support personnel", within the limits authorized by the State Code. This special funding under the school aid formula subsidizes employer contributions of the county boards of education.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, and 2018, the Authority reported a liability for its proportionate share of the RHBT net OPEB liability that reflected a reduction for State OPEB support provided to the Authority. The amount recognized by the Authority as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the Authority was as follows:

| | 2019 | 2018 |
|--|-------------|-------------|
| The Authority's proportionate share of the net OPEB liability. | \$ 260,666 | \$ 495,130 |
| State's special funding proportionate share of the net OPEB liability associated with the Authority. | 53,873 | 101,700 |
| Total portion of net OPEB liability associated with the Authority. | \$ 314,539 | \$ 596,830 |

The net OPEB liability reported at June 30, 2019 was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The Authority's proportion of the net OPEB liability was based on its proportionate share of employer and non-employer contributions to the OPEB Plan for the fiscal year ended on the measurement date. At June 30, 2018, the Authority's proportion was .0121498%, which is a decrease of .0079857 from its proportion measured as of June 30, 2017.

For the years ended June 30, 2019, and 2018, respectively, the Authority recognized OPEB expense of \$(56,167) and \$32,971 and for support provided by the State under special funding situations revenue of \$16,467 and \$31,220. At June 30, 2019, and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 15. Other Post Employment Benefits (OPEB) (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

| | June 30, 2019 | |
|--|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ - | \$ 3,856 |
| Changes in assumptions | - | 26,027 |
| Net difference between projected and actual earnings on OPEB plan investments | - | 4,825 |
| Changes in proportion and differences between the Authority's contributions and proportionate share of contributions | - | 274,162 |
| The Authority's contributions subsequent to the measurement date of June 30, 2018 | 19,733 | - |
| Total | \$ 19,733 | \$ 308,870 |

| | June 30, 2018 | |
|--|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ - | \$ 1,658 |
| Net difference between projected and actual earnings on OPEB plan investments | - | 7,903 |
| Changes in proportion and differences between the Authority's contributions and proportionate share of contributions | - | 164,409 |
| The Authority's contributions subsequent to the measurement date of June 30, 2017 | 26,930 | - |
| Total | \$ 26,930 | \$ 173,970 |

Deferred outflows of resources related to OPEB of \$19,733 resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year ended June 30: | |
|---------------------|------------|
| 2020 | \$(96,404) |
| 2021 | (96,404) |
| 2022 | (83,666) |
| 2023 | (32,396) |

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 15. Other Post Employment Benefits (OPEB) (Continued)

Actuarial assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-------------------------------|--|
| Inflation | 2.75% |
| Salary increases | Dependent upon pension system ranging from 3.00% to 6.50%, including inflation |
| Investment rate of return | 7.15%, net of OPEB plan investment expense, including inflation |
| Healthcare cost trend rates | Actual trend used for fiscal year 2018. For fiscal years on and after 2019, trend starts at 8.00% and 10.00% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.13% and 0.00% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2022 to account for the Excise Tax. |
| Actuarial cost method | Entry Age Normal Cost Method |
| Amortization method | Level percentage of payroll over a 20 year closed period |
| Remaining amortization period | 20 years closed as of June 30, 2017 |

Post-retirement mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and Teachers' Retirement System (TRS) and RP-2014 Healthy Annuitant Mortality Table projected with scale MP-2016 on a fully generational basis for West Virginia Death, Disability, and Retirement Fund (Troopers A) and West Virginia State Police Retirement System (Troopers B). Pre-retirement mortality rates were based on RP-2000 Non-Annuitant Mortality Table projected with scale AA on a fully generational basis for PERS and TRS and RP-2014 Employee Mortality Table projected with Scale MP-2016 on a fully generational basis for Troopers A and B.

The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|------------------|--|
| Inflation | 2.75% |
| Salary increases | Dependent upon pension system ranging from 3.00% to 6.50%, including inflation |

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 15. Other Post Employment Benefits (OPEB) (Continued)

Actuarial assumptions (Continued)

| | |
|-------------------------------|---|
| Investment rate of return | 7.15%, net of OPEB plan investment expense, including inflation |
| Healthcare cost trend rates | Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.50% and 9.75% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax. |
| Actuarial cost method | Entry Age Normal Cost Method |
| Amortization method | Level percentage of payroll over a 21 year closed period |
| Remaining amortization period | 21 years closed as of June 30, 2016 |

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and Teachers' Retirement System (TRS). RP-2000 Healthy Annuitant Mortality Table projected to 2025 with scale BB for West Virginia Death, Disability, and Retirement Fund (Troopers A) and West Virginia State Police Retirement System (Troopers B). Pre-Retirement: RP-2000 Non-Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and TRS. RP-2000 Non-Annuitant Mortality Table projected to 2020 with Scale BB for Troopers A and B.

The actuarial assumptions used in the June 30, 2016 and 2017 valuations were based on the results of an actuarial experience study for the period July 1, 2011 - June 30, 2015.

Certain assumptions have been changed since the prior measurement date. The assumption changes that most significantly impacted the Net OPEB Liability are as follows: the inclusion of waived annuitants increased the liability by approximately \$17 million; a 15% reduction in the retirement rate assumption decreased the liability by approximately \$68 million; a change in certain healthcare-related assumptions decreased the liability by approximately \$232 million; and an update to the mortality tables increased the liability by approximately \$25 million. Certain other assumption changes were noted but did not materially impact the Net OPEB Liability.

The long-term expected rate of return of 7.15% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.50% for long-term assets invested with the West Virginia Investment Management Board (WVIMB) and an expected short-term rate of return of 3.0% for assets invested with the WVBTL. Long-term pre-funding assets are invested with the WVIMB. The strategic asset allocation consists of 55% equity, 15% fixed income, 10% private equity, 10% hedge fund and 10% real estate invested. Short-term assets used to pay current year benefits and expenses are invested with the WVBTL.

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 15. Other Post Employment Benefits (OPEB) (Continued)

Actuarial assumptions (continued)

The long-term rate of return on OPEB plan investments were determined using a building block method in which estimates of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) was developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. Best estimates of long-term geometric rates are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|-----------------------------|---|
| Large Cap Domestic | 17.0% |
| Non-Large Cap Domestic | 22.0% |
| International Qualified | 24.6% |
| International Non-Qualified | 24.3% |
| International Equity | 26.2% |
| Short-Term Fixed | 0.5% |
| Total Return Fixed Income | 6.7% |
| Core Fixed Income | 0.1% |
| Hedge Fund | 5.7% |
| Private Equity | 19.6% |
| Real Estate | 8.3% |
| Opportunistic Income | 4.8% |
| Cash | 0.0% |

Discount rate

The discount rate used to measure the total OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions would be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. Future pre-funding assumptions include a \$30 million annual contribution from the State through 2037. Based on those assumptions, and that the Plan is expected to be fully funded by fiscal year ended June 30, 2037, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates.

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 15. Other Post Employment Benefits (OPEB) (Continued)

Other key assumptions

The projection assumes that the capped subsidy aggregate contribution limit of \$160 million for 2018 would increase by \$10 million per year on and after 2019. Additionally, the per member subsidy is projected to increase by at least 3.0% per year but no more than the healthcare trend inflation assumption such that the product of the projected subsidy and projected members is less than the projected aggregated capped costs; and the member's share of plan costs is expected remain stable as a percentage of total costs following the year that the program is fully funded. After 2037, the program is projected to be fully funded and the sponsor is assumed to contribute the residual portion of normal cost and operational expenses needed to maintain a funded ratio of 100% in future years. In addition, after 2035, the member's share of total plan costs is assumed to remain stable at approximately 61% of total plan costs. These assumptions produced per member annual capped subsidy increases of 3.0% per year from 2018 to 2023 and 4.5% per year after 2023.

Members hired on or after July 1, 2010, are required to pay 100% of expected cost of coverage, resulting in no implicit or explicit employer cost. Consequently, these members are excluded from the actuarial valuation.

Subsequent event

Subsequent to the June 30, 2018, measurement date, on August 21, 2018 RHBT executed a contract renewal with Humana's Medicare Advantage Plan (Humana MAPD) for the Plan years 2019 and 2020. This renewal included reduced per member per month capitation costs which decreased from \$224 to \$175 per member per month, due to favorable experience and the removal of the health insurance fee.

The estimated impact of these reduced rates is not recognized in the estimated net OPEB liability measured at June 30, 2018, since the contract was executed subsequent to the measurement date. Per GASB Statement 75, if a change occurs in a factor relevant to measurement of the net OPEB liability between the measurement date of the net OPEB liability and the employer's current fiscal year-end, the employer should report the effect on the net OPEB liability of that change as of the next measurement date. The estimated impact of the reduced capitation rates on the net OPEB liability is a decrease of approximately 9.0%, or \$280 million, which will be considered in the next actuarial valuation estimating the net OPEB liability measured as of June 30, 2019. The future actuarial measurement may differ significantly from this estimate due to various other factors such as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions due to changing conditions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

Sensitivity of the Authority's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the Authority's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 15. Other Post Employment Benefits (OPEB) (Continued)

Sensitivity of the Authority's proportionate share of the net OPEB liability to changes in the discount rate (continued)

| | 1% Decrease (6.15%) | Current Discount Rate (7.15%) | 1% Increase (8.15%) |
|---|--------------------------------|--|--------------------------------|
| The Authority's proportionate share of the net OPEB liability | \$ 306,361 | \$ 260,666 | \$ 222,574 |

Sensitivity of the Authority's proportionate share of net OPEB liability to changes in the healthcare cost trend rates.

The following presents the Authority's proportionate share of the net OPEB liability, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage point higher than the current rates:

| | 1% Decrease | Current Healthcare Cost Trend Rates | 1% Increase |
|---|--------------------|--|--------------------|
| The Authority's proportionate share of the net OPEB liability | \$ 215,687 | \$ 260,666 | \$ 315,471 |

Note 16. Conduit Debt Obligations

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

As of June 30, 2019 and 2018, there were 49 and 48 revenue bonds, respectively with principal amounts payable consisting of the following:

| | 2019 | 2018 |
|--|--------------------------------|--------------------------------|
| Bonds backed by leases with other State agencies | \$ 551,796,811 | \$ 527,125,127 |
| Other bonds outstanding | <u>2,983,800,340</u> | <u>2,101,285,805</u> |
| | <u>\$ 3,535,597,151</u> | <u>\$ 2,628,410,932</u> |

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019

Note 17. New Accounting Pronouncements

The GASB has issued the following accounting pronouncements which are not yet effective.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB has also issued **Statement No. 87**, *Leases*, which improves accounting and financial reporting for leases by governments. This Statement increases the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The Authority's management has not determined the effect this statement will have on its financial statements.

The GASB issued **Statement No. 90**, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The requirements of this Statement are effective for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

The GASB issued **Statement No. 91**, *Conduit Debt Obligations* in May 2019. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

Management has not determined the effects these new accounting pronouncements may have on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Public Employees Retirement System Plan

| | Year Ended June 30 | | | | |
|--|--------------------|------------|------------|------------|------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| West Virginia Economic Development Authority's proportion (percentage) of the net pension liability | 0.045977% | 0.045458% | 0.044215% | 0.044515% | 0.042673% |
| West Virginia Economic Development Authority's proportionate share of the net pension liability | \$ 118,736 | \$ 196,216 | \$ 406,384 | \$ 248,573 | \$ 157,492 |
| West Virginia Economic Development Authority's covered payroll | \$ 637,500 | \$ 626,980 | \$ 609,274 | \$ 603,684 | \$ 571,445 |
| West Virginia Economic Development Authority's proportionate share of the net pension liability as a percentage of its covered payroll | 18.63% | 31.30% | 66.70% | 41.18% | 27.56% |
| Plan fiduciary net position as a percentage of the total pension liability | 96.33% | 93.67% | 86.11% | 91.29% | 93.98% |

Note: All amounts presented are as of the measurement date, which is one year prior to the fiscal year end date.

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

SCHEDULE OF CONTRIBUTIONS TO THE PERS

| | Year Ended June 30 | | | | | | |
|--|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| Statutorily required contribution | \$ 57,117 | \$ 70,118 | \$ 75,237 | \$ 82,252 | \$ 84,516 | \$ 82,859 | \$ 77,531 |
| Contributions in relation to the statutorily required contribution | <u>57,117</u> | <u>70,118</u> | <u>75,237</u> | <u>82,252</u> | <u>84,516</u> | <u>82,859</u> | <u>77,531</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| West Virginia Economic Development Authority's covered payroll | \$ 571,080 | \$ 637,500 | \$ 626,980 | \$ 609,274 | \$ 603,684 | \$ 571,445 | \$ 553,778 |
| Contributions as a percentage of covered-employee payroll | 10.00% | 11.00% | 12.00% | 13.50% | 14.00% | 14.50% | 14.00% |

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

Retiree Health Benefit Trust

| | Year Ended June 30 | |
|---|--------------------|------------|
| | 2019 | 2018 |
| West Virginia Economic Development Authority's proportion (percentage) of the net OPEB liability | 0.012149% | 0.020135% |
| West Virginia Economic Development Authority's proportionate share of the net OPEB liability | \$ 260,666 | \$ 495,130 |
| West Virginia's special funding proportionate share of the net OPEB liability associated with the Authority | \$ 53,873 | \$ 101,700 |
| Total portion of the net OPEB liability associated with the Authority | \$ 314,539 | \$ 596,830 |
| West Virginia Economic Development Authority's covered-employee payroll | \$ 568,260 | \$ 577,507 |
| West Virginia Economic Development Authority's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 45.87% | 85.74% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 30.98% | 25.10% |

Note: All amounts presented are as of the measurement date,
which is one year prior to the fiscal year end date.

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

SCHEDULE OF CONTRIBUTIONS TO THE RHBT

| | Year Ended June 30 | | |
|---|--------------------|---------------|---------------|
| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
| Required contribution | \$ 19,733 | \$ 26,930 | \$ 41,358 |
| Contributions in relation to the required contribution | <u>19,733</u> | <u>26,930</u> | <u>41,358</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| West Virginia Economic Development Authority's covered-employee payroll | \$ 525,351 | \$ 568,260 | \$ 577,507 |
| Contributions as a percentage of covered-employee payroll | 3.76% | 4.74% | 7.16% |

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1. Trend Information Presented

The accompanying schedules of the West Virginia Economic Development Authority's proportionate share of the net OPEB and pension liabilities and contributions to RHBT and PERS are required supplementary information to be presented for 10 years. However, until a full 10 year trend is compiled, information is presented in the schedules for those years for which information is available.

Note 2. OPEB Changes in Assumptions

Below are changes in assumptions between the 2017 and 2016 valuations:

The assumption changes that most significantly impacted the Net OPEB Liability are as follows: the inclusion of waived annuitants increased the liability by approximately \$17 million; a 15% reduction in the retirement rate assumption decreased the liability by approximately \$68 million; a change in certain healthcare-related assumptions decreased the liability by approximately \$232 million; and an update to the mortality tables increased the liability by approximately \$25 million. Certain other assumption changes were noted but did not materially impact the Net OPEB Liability.

Below are changes in the assumptions between the 2016 and 2015 valuations:

Certain economic and behavioral assumptions are unique to healthcare benefits. These assumptions include the healthcare trend, per capita claims costs, the likelihood that a member selects healthcare coverage and the likelihood that a retiree selects one-person, two person or family coverage. These assumptions were updated based on a recent experience study performed by the RHBT actuaries using five-year experience data through June 30, 2015. The updated per capita claims costs were also based on recent claims, enrollment and premium information as of the valuation date.

For the June 30, 2016 valuation, the retiree healthcare participation assumption for each retirement plan is slightly higher than the previous assumption used in the June 30, 2015 OPEB valuation. More members who were covered as actives will be assumed to participate as retirees.

The 2016 and 2015 valuations include consideration of the \$30 million annual appropriations under Senate Bill 419, through July 1, 2037, or if earlier, the year the benefit obligation is fully funded. Additionally, the presentation of covered payroll was changed for the June 30, 2015, actuarial valuation. Participating employees hired before July 1, 2010, pay retiree premiums that are subsidized based on years of service at retirement. Participating employees hired on or after July 1, 2010, are required to fully fund premium contributions upon retirement. Consequently, beginning June 30, 2015, actuarial valuation covered payroll represents only the payroll for those OPEB eligible participating employees that were hired before July 1, 2010, allowing a better representation of the UAAL as a percentage of covered payroll, whereas, for the prior years, covered payroll is in total for all participating employees.

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 3. Plan Plan Amendment

The PERS was amended to make changes which apply to benefits earned by new employees hired July 1, 2015 and later as follows:

- For employees hired prior to July 1, 2015, qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. A member may retire with the pension reduced actuarially if the member is at least age 55 and has at least 10 years of contributory service, or at any age with 30 years of contributory service. For employees hired July 1, 2015 and later, qualification for normal retirement is 62 with 10 years of service. A member hired after July 1, 2015 may retire with the pension reduced actuarially if the member is between ages 60 and 62 with at least ten years of contributory service, between the ages of 57 and 62 with at least twenty years of contributory service, or between the ages 55 and 62 with at least thirty years of contributory service.
- The straight life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. For employees hired prior to July 1, 2015, average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. For all employees hired July 1, 2015 and later, average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings.
- For employees hired prior to July 1, 2015, terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired July 1, 2015 and later, this age increases to 64 with at least ten years of contributory service, or age 63 with at least twenty years of contributory service.
- For all employees hired prior to July 1, 2015, employees are required to contribute 4.5% of annual earnings. All employees hired July 1, 2015 and later, are required to contribute 6% of annual earnings.

Note 4. Pension Plan Assumptions

An experience study, which was based on the years 2009 through 2014, was completed prior to the 2015 actuarial valuation. As a result, several assumptions were changed for the actuarial valuations as follows:

| | 2015 - 2018 | 2014 |
|-----------------------------|-------------------------------------|----------------------------|
| Projected salary increases: | | |
| State | 3.0-4.6% | 4.25-6.0% |
| Nonstate | 3.35-6.0% | 4.25-6.0% |
| Inflation rate | 3.0% (2016-2018) ; 1.9% (2015) | 2.2% |
| Mortality rates | Active RP | |
| | 2000 Non-Annuitant, Scale AA | |
| | fully generational | |
| | Retired healthy males – 110% of RP- | Healthy males – 1983 GAM |
| | 200 Non-Annuitant, Scale AA | |
| | fully generational | Healthy females – 1971 GAM |

(Continued)

WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 4. Pension Plan Assumptions (Continued)

| | 2015 - 2018 | 2014 |
|------------------|--|--|
| | Retired healthy females - 101% of RP-2000 Non-Annuitant, Scale AA fully generational | Disabled males - 1971 GAM |
| | Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA fully generational | Disabled females - Revenue ruling 96-7 |
| | Disabled females - 107% of RP-2000 Disabled Annuitant, Scale AA fully generational | |
| Withdrawal rates | | |
| State | 1.75-35.1% | 1 - 26% |
| Non-state | 2-35.8% | 2 - 31.2% |
| Disability rates | 0 - .675% | 0 - .8% |



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 Economic 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 combined financial statements of the West Virginia Economic Development Authority (the Authority), a component unit of the State of West Virginia, as of and for the year ended June 30, 2019, and the related notes to the combined financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 26, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the combined 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 combined 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 entity'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.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
September 26, 2019