

Audited Financial Statements

West Virginia Water Development Authority

Year Ended June 30, 2013

Audited Financial Statements  
WEST VIRGINIA WATER DEVELOPMENT AUTHORITY  
Year Ended June 30, 2013

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses, and Changes in Fund Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11-29
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>	30-31

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia Water Development Authority (the Authority), a component unit of the State of West Virginia as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matters**

### *Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

Charleston, West Virginia  
October 1, 2013

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

## INTRODUCTION

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

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

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

This discussion and analysis of the Authority's financial activities for the year ended June 30, 2013, is designed to assist the reader in focusing on significant financial issues and activities of the Authority and to identify significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements, which begin on page 8.

## USING THIS REPORT

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

## FINANCIAL HIGHLIGHTS

- Total assets of the Authority decreased \$5.6 million or 2%. Deferred outflows of resources increased by \$874 thousand or 8%. There was a decrease in total liabilities of \$5.7 million or 2%. Total net position increased \$1.0 million or approximately 2%.
- Total revenues increased \$450 thousand or approximately 3%. This was primarily due to a gain on the sale of assets of \$628 thousand and an increase in other revenue of \$9 thousand, offset by a decrease in charges for services of \$187 thousand.

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

**FINANCIAL HIGHLIGHTS (Continued)**

- Total expenses decreased \$377 thousand or approximately 3%. This was primarily the combined result of a \$1 million decrease in interest expense and a \$700 thousand increase in operating expenses. The increase in operating expense is the result of the write off of the bond issue costs related to the current year bond issuances.

**THE AUTHORITY AS A WHOLE**

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

<b>Table 1</b>			
<b>Net Position</b>			
	2013	2012	Increase
	WDA	WDA	(Decrease)
<b>Assets</b>			
Current assets	\$ 21,843,903	\$ 22,969,111	\$ (1,125,208)
Non current assets	250,939,139	255,365,536	(4,426,397)
<b>Total assets</b>	<b>\$ 272,783,042</b>	<b>\$ 278,334,647</b>	<b>\$ (5,551,605)</b>
<b>Deferred outflows of resources</b>			
Deferred loss on bond refundings	\$ 12,512,593	\$ 11,638,777	\$ 873,816
<b>Total deferred outflows of resources</b>	<b>\$ 12,512,593</b>	<b>\$ 11,638,777</b>	<b>\$ 873,816</b>
<b>Liabilities</b>			
Current liabilities	\$ 10,002,388	\$ 9,928,775	\$ 73,613
Long-term debt outstanding	217,721,545	223,507,189	(5,785,644)
<b>Total liabilities</b>	<b>\$ 227,723,933</b>	<b>\$ 233,435,964</b>	<b>\$ (5,712,031)</b>
<b>Net position</b>			
Net investment in capital assets	7,527,254	6,431,364	1,095,890
Restricted	24,451,590	23,827,664	623,926
Unrestricted	25,592,858	26,278,431	(685,573)
<b>Total net position</b>	<b>\$ 57,571,702</b>	<b>\$ 56,537,459</b>	<b>\$ 1,004,243</b>

The implementation of GASB 65 resulted in the restatement of the prior year net position in the amount of \$4,674,848 due to the write off of bond issue costs, restatement of unamortized loss on refunding and bond insurance premiums.

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

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

**Total assets** decreased \$5.6 million or 2%. Decreases to assets were the result of the use of assets to fund interest expense of \$10.8 million on bonds payable, scheduled principal payments on bonds payable of \$7.2 million, and general and administrative expenses of \$2 million. The decrease to assets were substantially offset by operating revenues including revenues from interest on revenue bonds receivable reflected in the financial statements as "charges for services" of \$14.5 million and interest on investments of \$257 thousand. During the year, the Authority disbursed \$2.2 million in loans from unrestricted resources available to the authority, of which \$2 million was related to three wastewater/water projects that were closed in fiscal year 2013.

**Deferred Outflows of Resources** increased by \$874 thousand which was the result of the 2012 refunding of the 2002A bond and 2003A1 bond (Loan Program I), 2003A bond and 2003C bond (Loan Program II), 2000A bond and the 2000B bond (Loan Program III) totaling a loss on refunding of \$1,551,430 offset by current year amortizations of \$677,614.

**Total liabilities** decreased approximately \$5.7 million or 2%. The majority of the decrease was in revenue bonds payable, which are presented on the balance sheet net of unamortized premiums.

**Unrestricted net position** decreased \$685 thousand, primarily explained by an increase in capital assets.

**Restricted net position** increased \$623 thousand as a result of decreases in the amount of loan disbursements from restricted net position, combined with cash collections on loan repayments in excess of cash disbursements for debt service.

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

	2013	2012	Increase
	WDA	WDA	(Decrease)
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 14,501,304	\$ 14,688,376	\$ (187,072)
Other	36,642	26,843	9,799
<b>Total operating revenues</b>	<b>\$ 14,537,946</b>	<b>\$ 14,715,219</b>	<b>\$ (177,273)</b>
<b>Nonoperating revenues:</b>			
Interest and investment revenue, net of arbitrage	\$ 256,538	\$ 258,012	\$ (1,474)
Gain on sale of assets	628,865	-	628,865
<b>Total revenues</b>	<b>\$ 15,423,349</b>	<b>\$ 14,973,231</b>	<b>\$ 450,118</b>
<b>Expenses:</b>			
Operating expenses	\$ 3,594,460	\$ 2,891,316	\$ 703,144
Nonoperating expenses:			
Interest expense	10,794,646	11,875,465	(1,080,819)
<b>Total expenses</b>	<b>14,389,106</b>	<b>14,766,781</b>	<b>(377,675)</b>
<b>Change in net position</b>	<b>1,034,243</b>	<b>206,450</b>	<b>827,793</b>
<b>Beginning net position, as restated</b>	<b>56,537,459</b>	<b>56,331,009</b>	<b>206,450</b>
<b>Ending net position</b>	<b>\$ 57,571,702</b>	<b>\$ 56,537,459</b>	<b>\$ 1,034,243</b>

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

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

**Charges for services** decreased \$187 thousand. This is primarily due to only three loans closing during the current year of approximately \$2 million and to lower interest rates on loans already in the portfolio.

**Other** increased \$10 thousand primarily due to funds remaining after disbursement of issuance costs related to the 2012 bond refunding.

**Interest and investment revenue, net of arbitrage** decreased \$1 thousand, due to low yielding short term interest rates available to the Authority from period to period on comparable asset balances.

**Operating expenses** increased \$700 thousand from the prior year. This increase was primarily the result of expensing the current year bond issue costs for the 2012 bond refunding of approximately \$700 thousand to comply with the early implementation of GASB 65.

**DEBT ADMINISTRATION**

As a financing entity, the business of the Authority is debt issuance and administration, including servicing. By statute, the maximum amount of bonds the Authority is authorized to have outstanding includes debt issued for the Authority and by the Authority on behalf of the West Virginia Infrastructure and Jobs Development Council. While the redemption of bonds is economically prudent because of the resulting debt service savings, any reduction in the liability for long-term debt enables the Authority to manage debt capacity for future needs as well as for new programs. The Authority, therefore, continues to monitor its long-term outstanding debt for prepayment and refunding opportunities for debt service savings. At year end, the Authority had \$218 million in revenue and refunding bonds outstanding versus \$227 million in the prior year, a decrease of 4%.

As of June 30, 2013, the West Virginia Water Development Authority Revenue Refunding Bonds (Loan Program II) 2003 Series B and 2003 Series D, 2005 Series A-II and B-II and 2006 Series A-II; and Water Development Revenue Bonds (Loan Program IV) 2005 Series B-IV had a Standard & Poor's rating of A.

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

As of June 30, 2013, Assured Guaranty, the bond insurer for the West Virginia Water Development Authority, Water Development Revenue Bonds (Loan Program IV) 2005 Series A, had a Standard & Poor's rating of AA-.

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

The Authority, as well as its underwriters and bond counsel, continue to monitor the status of its bond insurers. The 2012 Series of refunding bonds were issued without an insurance policy.



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

**ECONOMIC FACTORS THAT MAY AFFECT THE AUTHORITY**

At its July 15, 2013, meeting, the Board authorized the Authority to refund two bond issues in November 2013, to obtain debt service savings. The proceeds of the 2013 Series A-II Bond (Loan Program II) will be used to refund the Authority's outstanding 2003 Series B Bonds and the outstanding 2003 Series D Bonds.

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

**CONTACTING THE AUTHORITY'S MANAGEMENT**

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

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

STATEMENT OF NET POSITION

June 30, 2013

ASSETS

Current assets:

Cash and cash equivalents	\$ 9,824,459
Receivables:	
Revenue bonds, net of unamortized discount of \$49,346	6,175,370
Supplemental revenue bonds	575,996
Interest	3,499,091
Administrative fees	1,808
Due from other agencies	<u>199,782</u>
Total unrestricted current assets	20,276,506

Restricted current assets:

Prepaid insurance	35,376
Investments	<u>1,532,021</u>
Total current assets	<u>21,843,903</u>

Noncurrent assets:

Receivables:	
Revenue bonds	13,118,740
Asset held on behalf of others	1,000,000
Investments	1,200,000
Capital assets, net	<u>7,527,254</u>
Total unrestricted noncurrent assets	<u>22,845,994</u>

Restricted assets:

Cash and cash equivalents	16,402,596
Receivables, net:	
Revenue bonds, net of unamortized discount of \$1,077,046	203,857,120
Supplemental revenue bonds	7,087,178
Prepaid insurance	<u>746,251</u>
Total restricted noncurrent assets	<u>228,093,145</u>

Total assets	<u>\$ 272,783,042</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on bond refundings	<u>\$ 12,512,593</u>
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LIABILITIES

## Current liabilities:

Accounts payable	\$ 147,147
Current portion of revenue bonds payable, net of unamortized net premium of \$389,233	7,939,233
Accrued interest payable	<u>1,916,008</u>

Total current liabilities	<u>10,002,388</u>
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## Noncurrent liabilities:

Accrued employee benefits	221,495
Asset held on behalf of others	1,000,000
Liabilities payable from restricted assets:	
Noncurrent portion of revenue bonds payable, net of unamortized net premium of \$6,015,050	<u>216,500,050</u>

Total noncurrent liabilities	<u>217,721,545</u>
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Total liabilities	<u>\$ 227,723,933</u>
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NET POSITION

Restricted	24,451,590
Unrestricted	25,592,858
Net investment in capital assets	<u>7,527,254</u>

Total net position	<u>\$ 57,571,702</u>
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The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Year Ended June 30, 2013

Operating revenues:	
Charges for services	\$ 14,501,304
Miscellaneous	<u>36,642</u>
Total operating revenues	<u>14,537,946</u>
Operating expenses:	
Depreciation and amortization	871,893
General and administrative	1,970,833
Bond issuance cost	<u>751,734</u>
Total operating expenses	<u>3,594,460</u>
Operating income	<u>10,943,486</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	256,538
Gain on sale of capital assets	628,865
Interest expense	<u>(10,794,646)</u>
Total nonoperating expenses	<u>(9,909,243)</u>
Change in net position	1,034,243
Total net position, beginning of year (as restated)	<u>56,537,459</u>
Total net position, end of year	<u>\$ 57,571,702</u>

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

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2013

Cash flows from operating activities	
Receipts of principal on bonds receivable	\$ 7,673,601
Receipts of interest on bonds receivable	14,488,021
Receipts of administrative fees on bonds receivable	36,790
Receipts of reimbursements from other agencies	1,175,052
Disbursements from issuance of bonds receivable	(2,307,164)
Disbursements of general and administrative expense	(2,370,153)
Disbursements on behalf of employees	(470,180)
Disbursements on behalf of other agencies	<u>(1,139,737)</u>
Net cash provided by operating activities	<u>17,086,230</u>
Cash flows from capital and related financing activities:	
Proceeds from sale of assets	1,300,000
Acquisition of capital assets	<u>(2,603,542)</u>
Net cash used in capital and related financing activities	<u>(1,303,542)</u>
Cash flows from noncapital financing activities:	
Principal paid on revenue and refunding bonds	(75,830,000)
Proceeds from refunding bond issuance	65,453,571
Interest paid on revenue and refunding bonds	<u>(6,886,298)</u>
Net cash used in noncapital financing activities	<u>(17,262,727)</u>
Cash flows from investing activities:	
Investment earnings	<u>256,597</u>
Net decrease in cash and cash equivalents	(1,223,442)
Cash and cash equivalents, beginning of year	<u>27,450,497</u>
Cash and cash equivalents, end of year	<u>\$ 26,227,055</u>

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

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 10,943,486
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization expense	871,893
Changes in assets and liabilities:	
Due from other agencies	35,315
Supplemental revenue bonds receivable	575,994
Revenue bonds receivable	4,790,443
Accrued interest receivable	(13,283)
Administrative fees receivable	148
Accounts payable	(82,852)
Accrued employee benefits	<u>(34,914)</u>
Net cash provided by operating activities	<u>\$ 17,086,230</u>

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

**1 - REPORTING ENTITY**

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

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

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

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

**2 - SIGNIFICANT ACCOUNTING POLICIES**Basis of Presentation

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

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

Cash Equivalents

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**Allowance for Uncollectible Loans and Service Charges

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

Investments

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

Restricted Assets

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

Capital Assets

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

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

Accrued Employee Benefits

In accordance with State policy, the Authority permits employees to accumulate earned but unused vacation and sick pay benefits. A liability for vacation pay is accrued when earned. To the extent that accumulated sick leave is expected to be converted to benefits on retirement, an estimated liability is accrued through the Authority's participation in the State's multiple employer cost-sharing other post employment benefit plan that represents billed and unpaid charges from that plan.

Bond Premiums, Discounts, and Issuance Costs

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



## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**Arbitrage Rebate Payable

The United States Internal Revenue Code of 1986, as amended (the "Code"), prescribes restrictions applicable to the Authority as issuer of Water Development Revenue and Refunding Bonds. Among those include restrictions on earnings on the bond proceeds. The Code requires payment to the federal government of investment earnings on certain bond proceeds in excess of the amount that would have been earned if the proceeds were invested at a rate equal to the yield on the bonds. As of June 30, 2013, the Authority is not liable to the federal government as a result of arbitrage.

Net Position

Management has adopted Governmental Accounting Standards Board ("GASB") Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and identifies net position as the residual of all elements presented in the statement of net position. GASB 63 also amends net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

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

Management has also adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities. The Authority has classified losses on bond refundings as a deferred outflow of resources.

Deferred Outflows of Resources

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**3 - RESTATEMENT OF NET POSITION**

The Authority has restated its net position as of June 30, 2012, to reflect the accounting treatment for bond issuance costs and the related effects to losses on bond refundings in accordance with the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Net position previously reported June 30, 2012	\$ 61,212,307
To restate net position for the effects of GASB 65 related to bond issuance costs	(2,723,208)
To restate net position for the effects of GASB 65 related to losses on bond refundings	<u>(1,951,640)</u>
Net position as restated June 30, 2012	<u>\$ 56,537,459</u>

**4 - DEPOSIT AND INVESTMENT RISK DISCLOSURES**

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

Interest Rate Risk

As of June 30, 2013, the Authority had the following investments and maturities:

Type	Investment Maturities (in Years)			
	Fair Value	Less than 1	1-5	6-10
Repurchase Agreements	\$ 1,532,021	\$ -	\$ 1,532,021	\$ -
U.S. Treasury	1,200,000	-	-	1,200,000
Money Markets	<u>26,017,148</u>	<u>26,017,148</u>	<u>-</u>	<u>-</u>
	<u>\$28,749,169</u>	<u>\$26,017,148</u>	<u>\$ 1,532,021</u>	<u>\$ 1,200,000</u>

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

Investments matched to obligations of the Authority would include investments of capital and special reserve funds for each of the Authority's outstanding bond issues in Loan Programs I, II and III. The General Revenue Bond Resolutions for Loan Programs I, II, III and IV require that, while the bonds are outstanding, there be on deposit in the capital and special reserve funds an amount equal to the maximum amount of principal installments and interest coming due during the current or any succeeding year. The General Revenue Bond Resolution for Loan Program IV permits this

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**4 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)**Interest Rate Risk (Continued)

requirement to be met, and it has been met, with the deposit of a Reserve Fund Credit Facility into the reserve fund. There are, therefore, no investments of capital and special reserve funds for Loan Program IV. The Authority has both the intent and the ability to hold long-term securities until final maturity and thus is limited in its exposure to interest rate risk on these long-term obligations.

Concentration of Credit Risk

As of June 30, 2013, the Authority had investment balances with the following issuers which are greater than or equal to 5 percent of the investment balance:

<u>Type</u>	<u>Issuer</u>	<u>Percentage of Investments</u>
Money Markets	Federated Prime Cash Obligations	91%

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

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

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

All other investments listed above that comprise more than 15% of the investment portfolio must be either provided by an institution with a rating of at least A/A by Moody's and/or Standard and Poor's, invested in a money market fund rated AAAM or AAAM-G or better by Standard and Poor's, secured by obligations of the United States, or not exceed the insurance limits established by the FDIC unless adequate collateral is provided.

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**4 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)**Credit Risk

The following table provides information on the credit ratings of the Authority's short-term investments as of June 30, 2013:

<u>Security Type</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Standard &amp; Poors</u>	<u>Fair Value</u>
Money Markets	AAAmf	Aaa-mf	AAAm	<u>\$ 26,017,148</u>

Additionally, at June 30, 2013, the Authority's investments in repurchase agreements, includes underlying securities of \$1,079,824 in federal agency obligations backed by the full faith and credit of the United States and \$847,127 in mortgage-backed securities guaranteed by different federal agencies and which hold an implied AA+ rating due to the guaranty of payment by the respective federal agency.

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

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

Custodial Credit Risk

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

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**4 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)**Custodial Credit Risk (Continued)

The Authority's investment guidelines put certain restrictions on repurchase agreements, including the following: the Authority can only enter into repurchase agreements with financial institutions having a credit rating of at least A/A; collateral is limited to direct federal, federally guaranteed or federal agency obligations; collateral is required to be delivered to a third-party custodian, the Authority or the trustee; and, the financial institution must guarantee the aggregate market value of the collateral will equal or exceed the outstanding repurchase agreement by the margin specified in the respective repurchase agreement. As of June 30, 2013, the Authority held no repurchase agreements that were not fully collateralized.

Cash consisted of the following at June 30, 2013:

Operating cash on hand	\$ -
Cash on deposit with State Treasurer	<u>209,907</u>
Total	<u>\$ 209,907</u>

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

A reconciliation of the amounts disclosed as cash and investments included in this Note to cash and cash equivalents, restricted cash and cash equivalents, and investments in the Statement of Net Assets as of June 30, 2013, is as follows:

## Deposits:

Cash and cash equivalents as reported on the Statement of Net Position	\$ 9,824,459
Add: restricted cash and cash equivalents	16,402,596
Less: cash equivalents and restricted cash equivalents disclosed as investments	<u>(26,017,148)</u>
Total cash as disclosed in this Note	<u>\$ 209,907</u>

## Investments:

Investments as reported on the Statement of Net Position	\$ 1,200,000
Add: restricted investments	1,532,021
Add: cash equivalents and restricted cash equivalents disclosed as investments	<u>26,017,148</u>
Total investments as disclosed in this Note	<u>\$ 28,749,169</u>

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**5 - DUE FROM OTHER AGENCIES**

Certain agencies of the State were indebted to the Authority at June 30, 2013, in connection with services performed by the Authority on behalf of the agencies. Amounts due the Authority at June 30, 2013, are as follows:

West Virginia Infrastructure and Jobs Development Council, net	\$ 119,790
Department of Environmental Protection Clean Water State Revolving Fund	28,068
Bureau for Public Health Drinking Water Treatment Revolving Fund	<u>51,924</u>
	<u>\$ 199,782</u>

**6 - ALLOWANCE FOR UNCOLLECTIBLE LOANS AND SERVICE CHARGES**

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

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

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

The Authority established guidelines to set up an allowance for estimated uncollectible amounts to be applied to loans receivable in the Revolving Loan Fund program as of June 30, 1981, and thereafter. The establishment of the allowance for financial reporting purposes does not affect the loan agreements that exist between the Authority and the various entities. The Revolving Loan Fund program balance at June 30, 2013, is comprised of the following:

Loans receivable	\$ 375,658
Service charges receivable	3,670
Allowance for uncollectible	<u>(379,328)</u>
	<u>\$ -</u>

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**7 - REVENUE BONDS RECEIVABLE**

As of June 30, 2013, the face value of revenue bonds of municipalities, public service districts and other political subdivisions purchased with proceeds from Water Development Revenue Bonds was \$210,731,485. Management's intentions are to hold such bonds until maturity; therefore, management believes the face amount of the bonds is fully collectible.

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

**8 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 617,273	\$ -	\$ (102,589)	\$ 514,684
Construction in progress	<u>2,383,995</u>	<u>1,702,417</u>	<u>(4,086,412)</u>	<u>-</u>
Total capital assets, not being depreciated:	<u>3,001,268</u>	<u>1,702,417</u>	<u>(4,189,001)</u>	<u>514,684</u>
Capital assets, being depreciated:				
Furniture and equipment	3,511,680	1,017,254	(124,447)	4,404,487
Building	963,493	4,086,412	(963,493)	4,086,412
Building improvements	<u>90,287</u>	<u>-</u>	<u>(90,287)</u>	<u>-</u>
Total capital assets, being depreciated	<u>4,565,460</u>	<u>5,103,666</u>	<u>(1,178,227)</u>	<u>8,490,899</u>
Less accumulated depreciation for:				
Furniture and equipment	750,001	748,941	(116,506)	1,382,436
Building	359,301	83,823	(347,231)	95,893
Building improvements	<u>26,062</u>	<u>3,753</u>	<u>(29,815)</u>	<u>-</u>
Total accumulated depreciation	<u>1,135,364</u>	<u>836,517</u>	<u>(493,552)</u>	<u>1,478,329</u>
Total capital assets, net	<u>\$ 6,431,364</u>	<u>\$ 5,969,566</u>	<u>\$ (4,873,676)</u>	<u>\$ 7,527,254</u>

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**9 - DEBT REFUNDINGS**

On December 19, 2012, the Authority issued six series of refunding bonds which affected loan program I, II, and III as follows:

**Loan Program I - Current refunding**

Series 2012A-I bonds, issued for \$4,430,000, with interest rates ranging from 2.0% to 3.0%, were used to refund \$4,590,000 of the remaining balance of the outstanding Series 2002A refunding bonds which carried interest rates ranging from 4.5% to 5.1%. The proceeds of \$4,687,894 (including a net issue premium of \$257,893) and other funds available to the Authority were used to pay \$50,743 in underwriting fees and other issuance costs with the remaining proceeds used to purchase United States Treasury obligations. Those purchased securities were deposited in an irrevocable trust, with an escrow agent to provide for the current redemption of the bonds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$12,872. This difference is being amortized through fiscal year 2026, along with \$119,128 of the previously unamortized balance of the prior refunding. The Authority completed the refunding to reduce its total debt service payments over the next 13 years by \$825,402, resulting in an economic gain (difference between the present values of the old and new debt service payments) of \$740,380.

Series 2012B-I bonds, issued for \$15,965,000, with interest rates ranging from 3.0% to 4.5%, were used to refund \$17,535,000 of the remaining balance of the outstanding Series 2003A-I which carried interest rates ranging from 3.9% to 5.3%. The proceeds of \$18,239,795 (including a net issue premium of \$2,274,795) and other funds available to the Authority were used to pay \$177,304 in underwriting fees and other issuance costs with the remaining proceeds used to purchase United States Treasury obligations. Those purchased securities were deposited in an irrevocable trust, with an escrow agent to provide for the current redemption of the bonds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$160,969. This difference is being amortized through fiscal year 2027, along with \$3,321,160 of the previously unamortized balance of the prior refunding. The Authority completed the refunding to reduce its total debt service payments over the next 14 years by \$3,598,397 resulting in economic gain of \$3,179,171.

**Loan Program II - Current refunding**

Series 2012A-II bonds, issued for \$6,055,000, with interest rates ranging from 2.0% to 3.0%, were used to refund \$6,290,000 of the remaining balance of the outstanding Series 2003A revenue bonds which carried interest rates ranging from 3.5% to 4.4%. The proceeds of \$6,439,496 (including a net issue premium of \$384,495) and other funds available to the Authority were used to pay \$67,717 in underwriting fees and other issuance costs with the remaining funds used to purchase United States Treasury obligations. Those purchased securities were deposited in an irrevocable trust, with an escrow agent to provide for redemption of the bonds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$75,770. This difference is being amortized through fiscal year 2024. The Authority completed the refunding to reduce its total debt service payments over the next 11 years by \$953,879, resulting in an economic gain of \$836,173.



## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**9 - DEBT REFUNDINGS (Continued)****Loan Program II - Advance Refunding**

Series 2012B-II bonds, issued for \$14,615,000, with interest rates ranging from 2.0% to 4.0%, were used to advance refund \$14,500,000 of the remaining balance of the outstanding Series 2003C refunding bonds which carried interest rates ranging from 3.9% to 5.0%. The proceeds of \$15,215,557 (including a net issue premium of \$600,556) and other funds available to the Authority were used to pay \$161,996 in underwriting fees and other issuance costs with the remaining funds used to purchase United States Treasury obligations. Those purchased securities were deposited in an irrevocable trust, with an escrow agent to provide for debt service on the refunded bonds as of June 30, 2013 through the redemption of the remaining Series 2003C bonds scheduled November 1, 2013. As a result of this advance refunding, \$14,500,000 of bonds are in substance defeased; therefore the liability for those bonds has been removed from the accompanying financial statements.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$889,120. This difference is being amortized through fiscal year 2034, along with \$731,342 of the previously unamortized balance of the prior refunding. The Authority completed the refunding to reduce its total debt service payments over the next 21 years by \$3,313,805 resulting in an economic gain of \$2,597,761.

**Loan Program III – Current Refunding**

Series 2012A-III bonds, issued for \$16,015,000 with interest rates ranging from 3.0% to 4.0%, were used to refund \$16,070,000 of the remaining balance of the outstanding Series 2000A revenue bonds which carried interest rates ranging from 6.0% to 6.4%. The proceeds of \$16,290,000 (including a net issue premium of \$275,020) and other funds available to the Authority were used to pay \$173,777 in underwriting fees and other issuance costs with the remaining funds used to purchase United States Treasury obligations. Those purchased securities were deposited in an irrevocable trust, including a cash deposit of \$505,065, with an escrow agent to provide for the current redemption of the bonds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$221,786. This difference is being amortized through fiscal year 2040. The Authority completed the refunding to reduce its total debt service payments over the next 27 years by \$8,184,133 resulting in an economic gain of \$5,800,639.

Series 2012B-III bonds, issued for 9,775,000, with interest rates ranging from 2.0% to 3.8%, were used to refund \$9,660,000 of the remaining balance of the outstanding Series 2000B revenue bonds which carried interest rates ranging from 5.3% to 5.9%. The proceeds of \$9,792,080 (including a net issue premium of \$17,080) and other funds available to the Authority were used to pay \$107,146 in underwriting fees and other issuance costs with the remaining funds used to purchase United States Treasury obligations. Those purchased securities were deposited in an irrevocable trust, including a cash deposit of \$273,290, with an escrow agent to provide for the current redemption of the bonds.

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**9 - DEBT REFUNDINGS (Continued)**

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$190,912. This difference is being amortized through fiscal year 2041. The Authority completed the refunding to reduce its total debt service payments over the next 28 years by \$3,803,389 resulting in an economic gain of \$2,548,960.

**10 - REVENUE BONDS PAYABLE**

The following is a summary of the Authority's bond transactions for the year ended June 30, 2013:

Revenue bonds payable at June 30, 2012	\$ 227,010,000
Bonds issued during the year ended June 30, 2013	66,855,000
Bonds retired during the year ended June 30, 2013	(7,185,000)
Bonds defeased during the year ended June 30, 2013	<u>(68,645,000)</u>
Revenue bonds payable at June 30, 2013	<u>\$ 218,035,000</u>

Revenue and refunding bonds outstanding at June 30, 2013, were as follows:

<u>Series</u>	<u>Final Maturity</u>	<u>Interest Rates %</u>	<u>Balance</u>
2003 BII	11/01/29	2.750-5.250	41,920,000
2003 DII	11/01/24	2.750-4.850	3,750,000
2005 AIV	11/01/44	3.250-4.650	34,475,000
2005 AII	11/01/33	3.500-5.000	14,240,000
2005 BII	11/01/33	3.500-5.000	10,430,000
2005 BIV	11/01/44	3.750-5.125	10,595,000
2006 AII	11/01/39	3.750-5.000	35,770,000
2012 AI	11/01/25	2.000-3.000	4,430,000
2012 BI	11/01/26	3.000-4.500	15,965,000
2012 AII	11/01/23	2.000-3.000	6,055,000
2012 BII	11/01/33	2.000-4.000	14,615,000
2012 AIII	07/01/39	3.000-4.000	16,015,000
2012 BIII	07/01/40	2.000-3.750	<u>9,775,000</u>
			<u>\$ 218,035,000</u>

Loan Program I includes Series 2012 AI and 2012 BI Water Development Revenue Refunding Bonds. Loan Program II includes Series 2012 AII and 2012 BII Water Development Revenue Refunding Bonds and Series 2003 BII, 2003 DII, 2005 AII, 2005 BII and 2006 AII Water Development Revenue Refunding Bonds. Loan Program III includes Series 2012 AIII and 2012 BIII Water Development Revenue Refunding Bonds. Loan Program IV includes Series 2005 AIV and 2005 BIV Water Development Revenue Bonds.

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**10 - REVENUE BONDS PAYABLE (Continued)**

Total future maturities of bond principal and interest on Authority indebtedness at June 30, 2013, are as follows:

**Loan Program I**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/01/13	\$ 1,495,000	\$ 726,450	\$ 2,221,450
11/01/14	1,435,000	682,500	2,117,500
11/01/15	1,480,000	638,775	2,118,775
11/01/16	1,525,000	593,700	2,118,700
11/01/17	<u>1,570,000</u>	<u>539,775</u>	<u>2,109,775</u>
	<u>7,505,000</u>	<u>3,181,200</u>	<u>10,686,200</u>
11/01/18-11/01/22	6,915,000	1,820,288	8,735,288
11/01/23-11/01/26	<u>5,975,000</u>	<u>465,212</u>	<u>6,440,212</u>
	<u>12,890,000</u>	<u>2,285,500</u>	<u>15,175,500</u>
	<u>\$ 20,395,000</u>	<u>\$ 5,466,700</u>	<u>\$ 25,861,700</u>

**Loan Program II**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/01/13	\$ 5,010,000	\$ 5,604,191	\$ 10,614,191
11/01/14	5,140,000	5,392,054	10,532,054
11/01/15	5,355,000	5,167,861	10,522,861
11/01/16	5,585,000	4,929,328	10,514,328
11/01/17	<u>5,380,000</u>	<u>4,689,457</u>	<u>10,069,457</u>
	<u>26,470,000</u>	<u>25,782,891</u>	<u>52,252,891</u>
11/01/18-11/01/22	28,870,000	19,742,717	48,612,717
11/01/23-11/01/27	31,785,000	12,950,453	44,735,453
11/01/28-11/01/32	25,385,000	5,908,150	31,293,150
11/01/33-11/01/37	10,705,000	2,068,125	12,773,125
11/01/38-11/01/39	<u>3,565,000</u>	<u>169,125</u>	<u>3,734,125</u>
	<u>100,310,000</u>	<u>40,838,570</u>	<u>141,148,570</u>
	<u>\$ 126,780,000</u>	<u>\$ 66,621,461</u>	<u>\$ 193,401,461</u>

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**10 - REVENUE BONDS PAYABLE (Continued)****Loan Program III**

	Principal	Interest	Total
07/01/13	\$ 250,000	\$ 917,455	\$ 1,167,455
07/01/14	630,000	876,331	1,506,331
07/01/15	635,000	859,806	1,494,806
07/01/16	655,000	842,931	1,497,931
07/01/17	675,000	823,406	1,498,406
	<u>2,845,000</u>	<u>4,319,929</u>	<u>7,164,929</u>
07/01/18-07/01/22	3,750,000	3,731,756	7,481,756
07/01/23-07/01/27	4,435,000	3,043,141	7,478,141
07/01/28-07/01/32	5,205,000	2,244,700	7,449,700
07/01/33-07/01/37	6,205,000	1,225,656	7,430,656
07/01/38-07/01/40	3,350,000	156,563	3,506,563
	<u>22,945,000</u>	<u>10,401,816</u>	<u>33,346,816</u>
	<u>\$ 25,790,000</u>	<u>\$ 14,721,745</u>	<u>\$ 40,511,745</u>

**Loan Program IV**

11/01/13	\$ 795,000	\$ 2,173,322	\$ 2,968,322
11/01/14	825,000	2,142,619	2,967,619
11/01/15	860,000	2,109,613	2,969,613
11/01/16	895,000	2,072,881	2,967,881
11/01/17	935,000	2,029,781	2,964,781
	<u>4,310,000</u>	<u>10,528,216</u>	<u>14,838,216</u>
11/01/18-11/01/22	5,405,000	9,390,006	14,795,006
11/01/23-11/01/27	6,495,000	7,953,369	14,448,369
11/01/28-11/01/32	7,720,000	6,249,713	13,969,713
11/01/33-11/01/37	8,490,000	4,167,653	12,657,653
11/01/38-11/01/42	8,580,000	2,134,388	10,714,388
11/01/43-11/01/44	4,070,000	206,209	4,276,209
	<u>40,760,000</u>	<u>30,101,338</u>	<u>70,861,338</u>
	<u>\$ 45,070,000</u>	<u>\$ 40,629,554</u>	<u>\$ 85,699,554</u>

Total all loan programs	\$ 218,035,000		
Add: unamortized net premium	<u>6,404,283</u>		
Total all programs, net	224,439,283		
Less: current portion	<u>(7,939,233)</u>		
Noncurrent portion	<u>\$ 216,500,050</u>		

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**10 - REVENUE BONDS PAYABLE (Continued)**

The Authority has defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust accounts' assets and the liabilities for the defeased bonds are not included in the Authority's financial statements. At June 30, 2013, there are \$17,805,000 in defeased bonds outstanding.

The proceeds from the Authority's Revenue Bond Program provide financial assistance to municipalities, public service districts and other public subdivisions to meet the requirements of state and federal water pollution control and safe drinking water laws. All bonds are considered a moral obligation of the state of West Virginia. All assets of the Authority except capital assets have been pledged to fulfill the commitments of the bonds over the life of the debt. Excluding current year refunding activities, principal and interest paid on bonds payable for the year ended June 30, 2013 was \$7,185,000 and \$10,865,970 respectively and principal payments and interest received on pledged notes receivable were \$7,673,601 and \$14,488,021, respectively, at June 30, 2013.

**11 - PENSION PLAN**

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

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

The Authority and plan members are required to contribute 14% and 4.5%, respectively, of annual covered salaries. The contribution requirements of the Authority and plan members are established and may be amended by State statute. The Authority's contributions to PERS for the years ended June 30, 2013, 2012 and 2011 were \$150,803, \$136,348, and \$56,488, respectively.

**12 - OTHER POSTEMPLOYMENT BENEFITS**Plan Description

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)**Plan Description (Continued)

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

Funding Policy

The Code requires that the OPEB Plan bill the participating employers 100% of the annual required contribution (ARC), an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy, per month.

The Authority's contributions to the trust fund for the years ended June 30, 2013, 2012, and 2011 were \$880, \$16,199, and \$15,295, respectively, and the billed ARC's were \$6,647, \$171,529, and \$105,170. The Authority's contributions represent 13.2%, 9.4%, and 14.5% of the ARC for the years then ended, respectively. These amounts were transferred to the OPEB Plan which resulted in accrued employee benefits of \$175,586 and \$169,819, respectively, which are included in the Authority's liabilities as of June 30, 2013 and 2012.

**13 - GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the year ended June 30, 2013, are as follows:

Personal services	\$ 435,266
Legal	97,363
Professional	408,516
Trustee	40,485
Employee benefits	83,002
Public employees insurance	46,317
Office supplies/printing	245,363
Building	4,715
Advertising	4,425
Repairs and maintenance	128,697
Travel	44,308
Utilities	43,147
Telecommunications	58,311
Vehicle	8,386
Payroll taxes	6,815
Computer supplies	237,596
Janitorial	23,875
Miscellaneous	17,377
Rental	12,259
Administrative	1,748
Insurance	4,866
Training and development	<u>17,996</u>
	<u>\$ 1,970,833</u>

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**14 - RISK MANAGEMENT**

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

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

The Authority participates in the West Virginia Board of Risk and Insurance Management to obtain coverage for general liability, property damage, business interruption, errors and omissions, and natural disasters. Coverage is offered in exchange for an annual premium. There were no changes in coverage or claims in excess of coverage for the year ended June 30, 2013.

**15 - NEW ACCOUNTING PRONOUNCEMENTS**

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will require the Authority to record their proportionate share of the actuarially determined net pension obligation of the PERS and will be effective for the Authority's June 30, 2015 financial statements. The Authority has not yet determined the effect this statement will have on its financial statements.

**16 - SEGMENT INFORMATION**

The presentation of segment information for the Authority, which follows, and conforms with GAAP is comprised of the following segments:

Loan Program I includes Series 2012 AI and 2012 BI Water Development Revenue Refunding Bonds. Loan Program II includes Series 2012 AII and 2012 BII Water Development Revenue Refunding Bonds and Series 2003 BII, 2003 DII, 2005 AII, 2005 BII and 2006 AII Water Development Revenue Refunding Bonds. Loan Program III includes Series 2012 AIII and 2012 BIII Water Development Revenue Refunding Bonds. Loan Program IV includes Series 2005 AIV and 2005 BIV Water Development Revenue Bonds.

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**16 - SEGMENT INFORMATION (Continued)**

<u>ASSETS</u>	<u>Loan Program I</u>	<u>Loan Program II</u>	<u>Loan Program III</u>
Current - unrestricted	\$ 1,578,194	\$ 5,545,850	\$ 512,591
Noncurrent - unrestricted	-	-	-
Restricted - current and noncurrent	22,582,936	128,151,347	26,775,024
Capital assets, net	-	-	-
Total assets	<u>\$ 24,161,130</u>	<u>\$ 133,697,197</u>	<u>\$ 27,287,615</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred loss on bond refundings	<u>\$ 3,367,464</u>	<u>\$ 8,740,544</u>	<u>\$ 404,585</u>
<u>LIABILITIES</u>			
Current	\$ 1,803,904	\$ 6,124,507	\$ 736,162
Long-term	21,150,927	124,319,562	25,815,287
Total liabilities	<u>22,954,831</u>	<u>130,444,069</u>	<u>26,551,449</u>
<u>NET POSITION</u>			
Restricted	4,799,473	12,572,329	1,364,322
Unrestricted	(225,710)	(578,657)	(223,571)
Net investment in capital assets	-	-	-
Total net position	<u>\$ 4,573,763</u>	<u>\$ 11,993,672</u>	<u>\$ 1,140,751</u>
<u>OPERATING REVENUE</u>			
Charges for services and miscellaneous revenue	\$ 1,787,339	\$ 8,295,702	\$ 1,615,282
<u>OPERATING EXPENSES</u>			
Depreciation and amortization	-	27,062	-
General and administrative	-	-	-
Bond issuance cost	228,513	232,153	288,058
Allocation of general and administrative	189,972	1,037,096	221,089
<u>OPERATING INCOME</u>	1,368,854	6,999,391	1,106,135
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Interest and investment revenue	321	101,119	104
Gain on sale of assets	-	-	-
Interest expense	(1,136,423)	(6,164,572)	(1,326,997)
Transfers (net)	(2,235,996)	3,372,431	(762,511)
Change in net position	(2,003,244)	4,308,369	(983,269)
Beginning net position (as restated)	<u>6,577,007</u>	<u>7,685,303</u>	<u>2,124,020</u>
Ending net position	<u>\$ 4,573,763</u>	<u>\$ 11,993,672</u>	<u>\$ 1,140,751</u>
Net cash provided by (used in):			
Operating activities	\$ (4,530)	\$ 13,766,897	\$ 827,950
Capital and related financing activities	-	-	-
Noncapital financing activities	(1,779,609)	(10,909,728)	(1,778,964)
Investing activities	351	101,141	487
Beginning cash and cash equivalents	<u>4,570,015</u>	<u>8,121,615</u>	<u>3,740,250</u>
Ending cash and cash equivalents	<u>\$ 2,786,227</u>	<u>\$ 11,079,925</u>	<u>\$ 2,789,723</u>



## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

(Continued)

**16 - SEGMENT INFORMATION (Continued)**

<u>ASSETS</u>	<u>Loan Program IV</u>	<u>Supplemental</u>	<u>Total</u>
Current - unrestricted	\$ 1,337,979	\$ 11,301,892	\$ 20,276,506
Noncurrent - unrestricted	-	15,318,740	15,318,740
Restricted - current and noncurrent	45,266,558	6,884,677	229,660,542
Capital assets - net	-	7,527,254	7,527,254
Total assets	<u>\$ 46,604,537</u>	<u>\$ 41,032,563</u>	<u>\$ 272,783,042</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred loss on bond refundings	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,512,593</u>
 <u>LIABILITIES</u>			
Current	\$ 1,190,668	\$ 147,147	\$ 10,002,388
Long-term	45,214,274	1,221,495	217,721,545
Total liabilities	<u>46,404,942</u>	<u>1,368,642</u>	<u>227,723,933</u>
 <u>NET POSITION</u>			
Restricted	52,284	5,663,182	24,451,590
Unrestricted	147,311	26,473,485	25,592,858
Net investment in capital assets	-	7,527,254	7,527,254
Total net position	<u>\$ 199,595</u>	<u>\$ 39,663,921</u>	<u>\$ 57,571,702</u>
 <u>OPERATING REVENUE</u>			
Charges for services and miscellaneous revenue	\$ 2,335,897	\$ 503,726	\$ 14,537,946
 <u>OPERATING EXPENSES</u>			
Depreciation and amortization	8,314	836,517	871,893
General and administrative	-	1,970,833	1,970,833
Bond issuance cost	-	3,010	751,734
Allocation of general and administrative	396,010	(1,844,167)	-
<u>OPERATING INCOME</u>	1,931,573	(462,467)	10,943,486
 <u>NONOPERATING REVENUES (EXPENSES):</u>			
Interest and investment revenue	35	154,959	256,538
Gain on sale of assets	-	628,865	628,865
Interest expense	(2,166,654)	-	(10,794,646)
Transfers (net)	396,010	(769,934)	-
Change in net position	160,964	(448,577)	1,034,243
Beginning net position (as restated)	<u>38,631</u>	<u>40,112,498</u>	<u>56,537,459</u>
Ending net position	<u>\$ 199,595</u>	<u>\$ 39,663,921</u>	<u>\$ 57,571,702</u>
 Net cash provided by (used in):			
Operating activities	\$ 3,067,047	\$ (571,134)	\$ 17,086,230
Capital and related financing activities	-	(1,303,542)	(1,303,542)
Noncapital financing activities	(2,970,324)	175,898	(17,262,727)
Investing activities	35	154,583	256,597
Beginning cash and cash equivalents	<u>(137,881)</u>	<u>11,156,498</u>	<u>27,450,497</u>
Ending cash and cash equivalents	<u>\$ (41,123)</u>	<u>\$ 9,612,303</u>	<u>\$ 26,227,055</u>

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

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Virginia Water Development Authority (the Authority), as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 1, 2013.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

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



### **Purpose of this Report**

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

*Gibbons & Kawash, A.C.*

Charleston, West Virginia  
October 1, 2013

Audited Financial Statements

West Virginia Infrastructure and Jobs Development Council

Year Ended June 30, 2013

Audited Financial Statements  
WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL  
Year Ended June 30, 2013

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Balance Sheet - Governmental Fund	13
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	14
Statement of Net Position - Proprietary Fund	15
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund	16
Statement of Cash Flows - Proprietary Fund	17
Notes to Financial Statements	18-36
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>	37-38

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the West Virginia Infrastructure and Jobs Development Council (the Council), a component unit of the State of West Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinions*

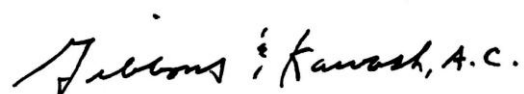
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Council, as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2013, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Council's internal control over financial reporting and compliance.



Charleston, West Virginia  
October 7, 2013

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

## INTRODUCTION

Our discussion and analysis of the West Virginia Infrastructure and Jobs Development Council's (the "Council") financial performance provides an overview of the Council's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the Council's financial statements, which begin on page 11.

## USING THIS REPORT

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

## FINANCIAL HIGHLIGHTS

### Business Type Activities:

- Total assets increased \$24 million from \$762 million to \$786 million.
- Deferred outflows increased \$1.2 million from \$1.3 million to \$2.5 million
- Total liabilities decreased \$2 million from \$119 million to \$117 million.
- Net position increased \$27 million from \$645 million to \$672 million

### Governmental Activities:

- Total assets decreased \$3 thousand from \$126 thousand to \$129 thousand.
- Deferred outflows decreased \$300 thousand from \$3.1 million to \$2.8 million
- Total liabilities decreased \$12 million from \$246 million to \$234 million.
- The deficiency in net position decreased \$11 million from (\$243) million to (\$232) million.

### Government Wide:

- Total assets increased \$24 million from \$762 million to \$786 million.
- Deferred outflows increased \$900 thousand from \$4.4 million to \$5.3 million
- Total liabilities decreased \$13 million from \$364 million to \$351 million.
- Net position increased by \$38 million from \$402 million to \$440 million.

### Other Highlights:

- 20 water and waste water project and economic development loans were closed for the year ended June 30, 2013 on behalf of the Council
- 29 water and wastewater and 2 Governor's contingency grants were closed for the year ended 2013 on behalf of the Council.



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

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

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

**Table 1**  
**Net Position**

	2013	2013	2012	2012
	Business Type Activities	Governmental Type Activities	Business Type Activities	Governmental Type Activities
<b>Assets</b>				
Cash equivalents	\$ 201,973,153	\$ 18,898	\$ 172,813,338	\$ 8,021
Investments	105,263,720		105,730,473	
Assets held by others	1,000,000		1,000,000	
Loans receivable, net	475,857,386		480,447,041	
Other	2,187,877	109,733	2,497,161	117,963
<b>Total assets</b>	<b>\$ 786,282,136</b>	<b>\$ 128,631</b>	<b>\$ 762,488,013</b>	<b>\$ 125,984</b>
<b>Deferred outflows of resources</b>				
Deferred loss on refunding	\$ 2,498,008	\$ 2,807,261	\$ 1,231,161	\$ 3,058,669
<b>Total deferred outflows</b>	<b>\$ 2,498,008</b>	<b>\$ 2,807,261</b>	<b>\$ 1,231,161</b>	<b>\$ 3,058,669</b>
<b>LIABILITIES</b>				
Bond payable, net	\$ 115,496,747	\$ 233,235,557	117,024,737	244,541,097
Other	1,361,843	1,241,148	1,566,317	1,287,418
<b>Total liabilities</b>	<b>\$ 116,858,590</b>	<b>\$ 234,476,705</b>	<b>118,591,054</b>	<b>245,828,515</b>
<b>NET POSITION</b>				
Restricted	\$ 628,787,330	\$ 18,898	\$ 598,670,425	\$ 8,021
Unrestricted (deficit)	43,134,224	(231,559,711)	46,457,695	(242,651,883)
<b>Total net position</b>	<b>\$ 671,921,554</b>	<b>\$ (231,540,813)</b>	<b>\$ 645,128,120</b>	<b>\$ (242,643,862)</b>

The implementation of GASB 65 resulted in the restatement of the prior year net position in the amount of \$1,427,649 for business type activities and \$567,557 for governmental type activities due to the write off of bond issue costs, restatement of deferred loss on bond refunding and the recording of prepaid bond insurance premiums.

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

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

**Table 1**  
**Net Position**

	2013	2013	2012	2012
	Business Type Activities	Governmental Type Activities	Business Type Activities	Governmental Type Activities
<b>Revenues</b>				
<b>Program revenues</b>				
Charges for services	\$ 2,771,441	\$ -	\$ 4,380,438	\$ -
<b>General revenues</b>				
Miscellaneous revenues	5,550	-	-	-
Intergovernmental	46,000,000	24,000,000	46,000,000	24,000,000
Investment earnings	433,764	10,878	480,307	7,942
Total general revenues	46,439,314	24,010,878	46,480,307	24,007,942
Total revenues	49,210,755	24,010,878	50,860,745	24,007,942
<b>Expenses</b>				
General & administrative	792,690	-	822,300	-
Interest on long-term debt	4,900,012	11,663,527	5,549,316	12,386,574
Bond issue costs	220,370	-	-	234,240
Infrastructure & economic development	16,633,523	-	23,341,510	-
Loss on uncollectible loans	1,115,028	-	2,368,000	-
Transfers (in) out	(1,244,302)	1,244,302	(1,004,787)	1,004,787
Total expenses	22,417,321	12,907,829	31,076,339	13,625,601
Changes in net position	26,793,434	11,103,049	19,784,406	10,382,341
Beginning net position (deficit), as restated	645,128,120	(242,643,862)	625,343,714	(253,026,203)
Ending net position (deficit)	\$ 671,921,554	\$ (231,540,813)	\$ 645,128,120	\$ (242,643,862)

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

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

**Cash equivalents**, which include short-term, highly liquid investments with original maturities of 90 days or less, increased \$29 million, from \$173 million last year to \$202 million at the end of the current year. The increase in cash was the result of receiving repayment of six large loans which totaled \$20.6 million. In addition, mineral severance tax, interest on loans, principal repayments of loans and investment earnings all contributed to the increases.

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

**Investments** remained stable at \$105 million for the current and prior year.

**Loans receivable** decreased \$5 million. This decrease was primarily the combined effect of disbursements of new and prior year loan funds to projects of approximately \$33 million, less repayments of principal on loans of approximately \$38 million.

**Deferred outflows of resources** increased \$1.2 million due to the refunding of the 2003 Series A bonds during the current year.

**Total liabilities** decreased \$13 million related mostly to a net decrease in bonds payable from the previous year. Current year principal payments on outstanding debt of approximately \$17.5 million decreased bonds payable. Additionally, 2003 Series A revenue bonds were refunded, resulting in approximately a \$27 million decrease in bonds payable. A new series of revenue refunding bonds were issued during the current year increasing bonds payable by approximately \$27 million, including a premium of approximately \$500 thousand and approximately a \$4 million increase in interest accreted on the general obligation bonds during the current year.

**Restrictions of net position** are the result of constraints placed on the use of net position which have been imposed externally through debt covenants and by law through enabling legislation. Restricted net position increased approximately \$30 million during the current year. That increase can be explained primarily as follows: mineral severance tax revenue of \$24 million and excess lottery appropriations of \$46 million. Also, included in the increase were loan repayments of principal and interest totaling \$41 million. Offsetting the increases were disbursements of \$16 million for grants awarded in current and prior years. \$31 million of principal and interest expense related to revenue and general obligation bonds and loan disbursements of \$34 million. Transfers from restricted accounts included interest earnings on accounts funded with residual mineral severance tax revenue, earnings on accounts funded with State appropriations of excess lottery revenue and earnings on debt service reserve funds. As provided by enabling legislation, the earnings on those restricted accounts were transferred to the unrestricted revenue account and various rebate accounts and were used, in part, to pay operating expenses of the Council.

**Unrestricted Net Position** for business type activities as of June 30, 2013 is \$43 million, a decrease from the prior year of approximately \$3 million. This is primarily due to a decrease in the disbursement for the State Match of the federally sponsored Clean Water State Revolving fund as well as general and administrative expenses of approximately \$800 thousand, and a residual receipt of the \$1.2 million after debt service payments.

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

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

The only activity reported in the governmental fund relates to future payments of the General Obligation Bonds which mature through 2026. See Note 9 in the Notes to the Financial Statements for further detail. Although the governmental fund reports a deficit, \$24 million of intergovernmental revenue is statutorily provided every year by the State of West Virginia from excess mineral severance tax in order to pay the debt service for the General Obligation Bonds. The total government - wide net position as of June 30, 2013, is \$440 million.

**Charges for services** consist of interest earnings on loans to projects which decreased during the current year by approximately \$1.6 million. Loans receivable had a net decrease of \$5 million during the current year, most of the new loans to projects are full term noninterest bearing or bear no interest during the construction period or the accrual and payment of interest are for other reasons deferred to future periods.

**Intergovernmental activity** consists of \$24 million mineral severance tax revenue and \$46 million excess lottery revenue, both appropriated from the State. The mineral severance tax revenue was received from the State's general fund into the Debt Service Fund to pay the general obligation bonds debt service payments required in fiscal year 2013. Excess lottery revenue represents the amount in the State's lottery fund in the State Treasury appropriated by the Legislature to the Council for loans, grants and other funding assistance.

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

Investment earnings for the prior and current years were approximately \$500 thousand. Despite investments being consistent with prior years, interest rates for the money market accounts in which most of the Council's funds are invested remained low throughout the year.

**Interest on long-term debt** decreased approximately \$1 million. The decrease is due to a decrease in interest on revenue bonds due to the refunding of 2003 Series A bonds on December 19, 2012, at a lower rate of interest.

**Infrastructure and economic development activity** consists of grants paid to projects, binding commitments as well as the contributions for the required State matches for the federally sponsored Drinking Water Treatment and Clean Water State Revolving Funds. The current year disbursement of State Matches was approximately \$6 million, of which \$2 million was allocated to the Drinking Water Treatment Revolving Fund and \$4 million to the Clean Water State Revolving Fund. As of year-end, the Council has 28 binding commitments. These include 14 loans and 14 grants for which the funds are committed and not disbursed.

**SYSTEM DESIGN AND REPORTING IMPROVEMENTS**

The Infrastructure Jobs and Development Council has continued to provide enhancements to their online application process. The current project application process is being streamlined from five software packages to one and that project will be completed by the second quarter of fiscal year 2014. As of August 2013, all council meetings are available to be viewed on-line and individuals are able to participate remotely.

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

### **BUDGETARY HIGHLIGHTS**

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

As a result of Senate Bill 245, an additional \$6 million was appropriated and received for the use of grants or debt service on bonds to be issued for Chesapeake Bay and Greenbrier Watershed projects.

### **DEBT ADMINISTRATION**

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

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

At year-end, \$342 million (prior to amortization) in general obligation, revenue and refunding bonds issued for the benefit of the Council were outstanding versus \$355 million in the prior year, a decrease of 3.7% resulting from a current year refunding, scheduled principal payments, and offset by current year accreted interest on capital appreciation bonds. For more information on long-term debt, please refer to Note 9 of the financial statements.

As of June 30, 2013, Assured Guaranty, the bond insurer for the West Virginia Water Development Authority, Infrastructure Revenue Bonds Series 2007A; West Virginia Water Development Authority, Infrastructure Revenue Refunding Bonds Series 2006A and Series 2006B had a Standard & Poor's rating of AA-.

As of June 30, 2013, the State of West Virginia, Infrastructure General Obligation Bonds Series 1996A and the State of West Virginia Infrastructure General Obligation Bonds Series 1996D had a Standard & Poor's rating of A. The State of West Virginia Infrastructure General Obligation Bonds Series 1998A, State of West Virginia Infrastructure General Obligation Bonds Series 1999C, State of West Virginia Infrastructure General Obligation Bonds Series 2006 A and Series 2011A had a Standard & Poor's rating of AA-. The bond insurer, Financial Guaranty Insurance Company, had no rating by Standard & Poor's.

As of June 30, 2013, the West Virginia Water Development Authority, Infrastructure Revenue Refunding Bonds Series 2012 A had a Moody's rating of Aa3 and a Fitch rating of AA.

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

**DEBT ADMINISTRATION (Continued)**

The ratings, or lack thereof, of the bond insurers did not result in any event of default and does not affect the fixed interest rates paid on its' bonds issued on its behalf by the Authority. Any downward revision or withdrawal of any such rating could have an adverse effect on the secondary market price of the bonds issued on its' behalf by the Authority. The outstanding revenue bonds, except for Series 2011 which was issued with a rating of AA, by Standard & Poor's, were originally issued with a rating of AAA by Standard & Poor's on the understanding that the standard insurance policy purchased guaranteed the timely payment of principal and interest on the bonds. There is no assurance that a particular rating will continue for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of Standard & Poor's, circumstances so warrant.

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

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

**FACTORS WHICH MAY AFFECT THE COUNCIL**

Currently known facts, decisions or conditions that are expected to have a significant effect on financial position or results of operations (revenues, expenses, and other changes in fund balance and net position) include several factors.

The Legislature appropriated to the Council \$46 million for fiscal year 2014 from the excess lottery revenue fund. This amount is contingent on revenue collected from state video lottery operations meeting expected projections; therefore, the Council may receive up to \$40 million to provide additional loans, grants and other funding assistance and an additional \$6 million restricted for Chesapeake Bay and Greenbrier Watershed projects.

At the August 7, 2013, Infrastructure Jobs and Development Council meeting, the Council authorized the Authority to obtain written direction of the Governor authorizing the Authority to issue not more than \$180,000,000 of its Infrastructure Lottery Revenue Bonds (Chesapeake Bay/Greenbrier River) to provide money necessary for the Council to make grants to project sponsors.

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

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

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

**CONTACTING THE COUNCIL'S MANAGEMENT**

This financial report is designed to provide a general overview of the Council's finances and to show the Council's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director or Chief Financial Officer, West Virginia Water Development Authority, 1009 Bullitt Street, Charleston, West Virginia 25301 (Phone: 304-414-6500) or the Executive Director, West Virginia Infrastructure and Jobs Development Council, 1009 Bullitt Street, Charleston, West Virginia 25301 (Phone: 304-414-6500).

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

## STATEMENT OF NET POSITION

Year Ended June 30, 2013

<u>ASSETS</u>	Governmental Activities	Business Type Activities	Total
Cash equivalents	\$ 18,898	\$ 201,973,153	\$ 201,992,051
Investments	-	105,263,720	105,263,720
Accrued interest receivable	-	1,775,300	1,775,300
Prepaid insurance	109,733	394,187	503,920
Asset held by others	-	1,000,000	1,000,000
Loans receivable, net of allowances of \$10,868,000	-	475,857,386	475,857,386
Miscellaneous receivable	-	18,390	18,390
	<u>\$ 128,631</u>	<u>\$ 786,282,136</u>	<u>\$ 786,410,767</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Losses on bond refundings	<u>\$ 2,807,261</u>	<u>\$ 2,498,008</u>	<u>\$ 5,305,269</u>
<u>LIABILITIES</u>			
Accounts payable	\$ -	\$ 19,086	\$ 19,086
Due to other State of West Virginia agencies	-	119,790	119,790
Accrued interest payable	1,241,148	1,222,967	2,464,115
General obligation bonds			
Due within one year, net of unamortized premium of \$387,230	15,892,230	-	15,892,230
Due after one year, net of unamortized premium of \$4,406,202	217,343,327	-	217,343,327
Revenue bonds			
Due within one year, net of unamortized premium of \$59,430 and unamortized discount of \$7,577	-	2,761,853	2,761,853
Due after one year, net of unamortized premium of \$1,599,981 and unamortized discount of \$70,087	-	112,734,894	112,734,894
	<u>\$ 234,476,705</u>	<u>\$ 116,858,590</u>	<u>\$ 351,335,295</u>
<u>NET POSITION</u>			
Net position:			
Restricted	\$ 18,898	\$ 628,787,330	\$ 628,806,228
Unrestricted (deficit)	<u>(231,559,711)</u>	<u>43,134,224</u>	<u>(188,425,487)</u>
Total net position	<u>\$ (231,540,813)</u>	<u>\$ 671,921,554</u>	<u>\$ 440,380,741</u>

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



## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue	Net (Expenses) Revenue and Changes in Net Position		Total
			Governmental Activities	Business-Type Activities	
Governmental activities:					
Interest on long-term debt	\$ 11,663,527	\$ -	\$ (11,663,527)	\$ -	\$ (11,663,527)
Business-type activities:					
Infrastructure and jobs development	<u>23,661,623</u>	<u>2,771,441</u>	<u>-</u>	<u>(20,890,182)</u>	<u>(20,890,182)</u>
Total primary government	<u>\$ 35,325,150</u>	<u>\$ 2,771,441</u>	<u>\$ (11,663,527)</u>	<u>\$ (20,890,182)</u>	<u>\$ (32,553,709)</u>
General revenues:					
Intergovernmental			\$ 24,000,000	\$ 46,000,000	\$ 70,000,000
Other			-	5,550	5,550
Investment earnings			10,878	433,764	444,642
Transfers in (out)			<u>(1,244,302)</u>	<u>1,244,302</u>	<u>-</u>
Total general revenues and transfers			<u>22,766,576</u>	<u>47,683,616</u>	<u>70,450,192</u>
Change in net position			11,103,049	26,793,434	37,896,483
Net position, beginning of year, as restated			<u>(242,643,862)</u>	<u>645,128,120</u>	<u>402,484,258</u>
Net position, end of year			<u>\$ (231,540,813)</u>	<u>\$ 671,921,554</u>	<u>\$ 440,380,741</u>

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

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

## BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2013

	<u>Debt Service Fund</u>
<u>ASSETS</u>	
Cash	<u>\$ 18,898</u>
<u>FUND BALANCE</u>	
Restricted	<u>18,898</u>
Total fund balance	<u>\$ 18,898</u>

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

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

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

Year Ended June 30, 2013

	Debt Service Fund
Revenues:	
Intergovernmental	\$ 24,000,000
Investment earnings	<u>10,878</u>
Total revenues	<u>24,010,878</u>
Expenditures:	
Debt service:	
Principal	15,170,000
Interest	<u>7,585,699</u>
Total expenditures	<u>22,755,699</u>
Other financing sources (uses):	
Transfers out	<u>(1,244,302)</u>
Net change in fund balance	10,877
Fund balance, beginning of year	<u>8,021</u>
Fund balance, end of year	<u>\$ 18,898</u>

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

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

## STATEMENT OF NET POSITION - PROPRIETARY FUND

Year Ended June 30, 2013

<u>ASSETS</u>	<u>Enterprise Fund</u>
Current assets:	
Cash equivalents	\$ 201,973,153
Investments	105,263,720
Current portion of loans receivable	17,859,440
Accrued interest receivable	1,775,300
Prepaid insurance	15,152
Miscellaneous receivable	18,390
Total current assets	<u>326,905,155</u>
Noncurrent assets:	
Asset held by others	1,000,000
Prepaid insurance	379,035
Loans receivable, net of allowances of \$10,868,000	457,997,946
Total noncurrent assets	<u>459,376,981</u>
Total assets	<u>\$ 786,282,136</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Loss on bond refundings	<u>\$ 2,498,008</u>
 <u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 19,086
Due to other State of West Virginia agencies	119,790
Accrued interest payable	1,222,967
Current portion of revenue bonds payable, net of unamortized premium of \$59,430 and unamortized discount of \$7,577	<u>2,761,853</u>
Total current liabilities	<u>4,123,696</u>
Noncurrent liabilities:	
Noncurrent portion of revenue bonds payable, net of unamortized premium of \$1,599,981 and unamortized discount of \$70,087	<u>112,734,894</u>
Total liabilities	<u>\$ 116,858,590</u>
 <u>NET POSITION</u>	
Restricted	\$ 628,787,330
Unrestricted	<u>43,134,224</u>
Total net position	<u>\$ 671,921,554</u>

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

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

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

Year Ended June 30, 2013

	<u>Enterprise Fund</u>
Interest charges for services	\$ <u>2,771,441</u>
Operating expenses:	
Infrastructure and economic development	16,633,523
Provisions for uncollectible loans	1,115,028
Bond issue costs	220,370
General and administrative	<u>792,690</u>
Total operating expenses	<u>18,761,611</u>
Operating loss	<u>(15,990,170)</u>
Nonoperating revenues (expenses):	
Intergovernmental	46,000,000
Other	5,550
Investment earnings, net	433,764
Interest on bonds	<u>(4,900,012)</u>
Total nonoperating revenues, net	41,539,302
Transfers in	<u>1,244,302</u>
Change in net position	26,793,434
Net position, beginning of year, as restated	<u>645,128,120</u>
Net position, end of year	<u>\$ 671,921,554</u>

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

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

## STATEMENT OF CASH FLOWS - PROPRIETARY FUND

Year Ended June 30, 2013

	<u>Enterprise Fund</u>
Cash flows from operating activities:	
Receipts of principal on loans	\$ 37,910,819
Receipts of interest on loans	3,037,031
Disbursements of loans	(34,436,192)
Disbursements of grants	(16,633,523)
Disbursements of general and administrative expenses	(1,082,905)
Net cash used in operations	<u>(11,204,770)</u>
Cash flows from noncapital financing activities:	
Excess lottery and other appropriations	46,000,000
Proceeds from issuance from refunding bonds	25,827,392
Transfers in	1,244,302
Principal paid on revenue bonds	(29,230,000)
Interest paid on revenue bonds	(4,409,935)
Net cash provided by noncapital financing activities	<u>39,431,759</u>
Cash flows from investing activities:	
Proceeds from sale of investments	553,416
Investment earnings	379,410
Net cash provided by investing activities	<u>932,826</u>
Net increase in cash and cash equivalents	29,159,815
Cash and cash equivalents, beginning of year	<u>172,813,338</u>
Cash and cash equivalents, end of year	<u>\$ 201,973,153</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (15,990,170)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Provision for loan losses	1,115,028
Changes in assets and liabilities:	
Due to other agencies	(76,457)
Loans receivable	3,474,627
Miscellaneous receivables	485
Accrued interest receivable	265,105
Accounts payable	6,612
Net cash used in operating activities	<u>\$ (11,204,770)</u>

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

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

## NOTES TO FINANCIAL STATEMENTS

**1 - REPORTING ENTITY**

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

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

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

**2 - GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

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

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

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

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**3 - MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)**

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

The government reports the following major governmental fund:

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

The government reports the following major proprietary fund:

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

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

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

**4 - SIGNIFICANT ACCOUNTING POLICIES**Budgetary Accounting

Except for excess lottery revenue appropriated for expenditures in the enterprise fund and mineral severance taxes appropriated for debt service in the debt service fund, the Council's funds are not subject to the Legislative budget process.

Cash Equivalents

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

Investments

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

Allowance for Uncollectible Loans

The Council uses the allowance method of providing for loan losses on economic development project loans. The provision for loan losses charged to operating expense is based on factors which deserve current recognition in estimating possible losses, such as growth and composition of the loan



## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

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

portfolio, relationship of the allowance for uncollectible loans to outstanding loans, current financial condition of the borrowers, changes in specific industries, and overall economic conditions.

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

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

Interfund Transactions

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

Bond Premiums, Discounts and Issuance Costs

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

Arbitrage Rebate Payable

The United States Internal Revenue Code of 1986, as amended (the "Code"), prescribes restrictions applicable to the Council as issuer of Infrastructure Fund Revenue and Refunding Bonds. Among those include restrictions on earnings on the bond proceeds. The Code requires payment to the federal government of investment earnings on certain bond proceeds in excess of the amount that would have been earned if the proceeds were invested at a rate equal to the yield on the bonds. As of June 30, 2013, the Council is not liable to the federal government as a result of arbitrage.

Fund Balances

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

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**Net Position

Management has adopted Governmental Accounting Standards Board (“GASB”) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and identifies net position as the residual of all elements presented in the statement of net position. GASB 63 also amends net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

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

Management has also adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities. The Council has classified losses on bond refundings as a deferred outflow of resources.

Deferred Outflows of Resources

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

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**5 - RESTATEMENT OF NET POSITION**

The Council has restated its net position on the government-wide and enterprise fund financial statements as of June 30, 2012, to reflect the accounting treatment for bond issuance costs and the related effects to losses on bond refundings in accordance with the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

	Government Activities	Business Type Activities/ Enterprise Fund	Total
Net position previously reported June 30, 2012	\$ (242,076,305)	\$ 646,555,769	\$ 404,479,464
To restate net position for the effects of GASB 65 related to bond issuance costs	(567,557)	(923,444)	(1,491,001)
To restate net position for the effects of GASB 65 related to losses on bond refundings	<u>-</u>	<u>(504,205)</u>	<u>(504,205)</u>
Net position as restated	<u>\$ (242,643,862)</u>	<u>\$ 645,128,120</u>	<u>\$ 402,484,258</u>

**6 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

Total fund balance on governmental fund balance sheet	\$ 18,898
Under the current financial resources measurement focus and modified accrual basis of accounting, liabilities related to debt service are not recorded until due and are not included in the governmental funds balance sheet:	
Prepaid insurance on outstanding bond issues	109,733
Deferred outflows of resources	2,807,261
General obligation bonds	(233,235,557)
Accrued interest on general obligation bonds	<u>(1,241,148)</u>
Net assets (deficit) of governmental activities	<u>\$ (231,540,813)</u>

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**6 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)**

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

Net change in fund balance - governmental fund	\$ 10,877
Principal debt payments recorded on the modified accrual basis of accounting are not recorded in the governmental activities	15,170,000
Accretion of interest related to capital appreciation bonds is an expense of the governmental activities	<u>(4,077,828)</u>
Change in net position of governmental activities	<u>\$ 11,103,049</u>

**7 - DEPOSIT AND INVESTMENT RISK DISCLOSURES**

The Authority, as fiscal agent for the Council, adopted and adheres to investment guidelines for the Council. Those guidelines and the General Revenue Bond Resolution authorize the Council to invest all bond proceeds and other revenues in obligations of the United States and certain of its agencies, certificates of deposit, public housing bonds, direct and general obligations of states which are rated in either of the two highest categories by Standard & Poor's Corporation, advance-refunded municipal bonds and repurchase agreements relating to certain securities. With the exception of deposits and investments of the General Obligation Debt Service Fund, investments are managed by the financial institution serving as trustee for the Council.

As required by West Virginia Code, the mineral severance tax revenue appropriated annually for debt service on the general obligation bonds is deposited in the General Obligation Debt Service Fund held by the Treasurer of the State of West Virginia and is invested in accordance with the Act and in conformity with investment guidelines of the Board of Treasury Investments (BTI). The Debt Service Fund's cash balances are invested by the BTI in the West Virginia Money Market Pool with a carrying amount of \$18,898 at June 30, 2013.

Interest Rate Risk - West Virginia Money Market Pool

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

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

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**7 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)**Interest Rate Risk - West Virginia Money Market Pool (Continued)

<u>Security Type</u>	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 229,326	3
U.S. treasury notes	279,755	132
U.S. treasury bills	34,993	77
Commercial paper	970,395	43
Certificates of deposit	259,000	66
U.S. agency discount notes	445,784	47
Corporate bonds and notes	10,000	60
U.S. agency bonds	66,603	139
Money market funds	<u>200,012</u>	1
	<u>\$ 2,495,868</u>	52

Interest Rate Risk - All Other Investments

As of June 30, 2013, the Council had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>1-5</u>
Guaranteed investment contracts	\$ 5,178,223	\$ 2,307,909	\$ 2,870,314
U.S. Treasury obligations	100,085,497	100,085,497	-
Money markets	<u>201,973,153</u>	<u>201,973,153</u>	<u>-</u>
	<u>\$ 307,236,873</u>	<u>\$ 304,366,559</u>	<u>\$ 2,870,314</u>

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

Investments matched to obligations of the Council would include investments of reserve funds for each of the Authority's outstanding revenue and refunding bond issues. The General Revenue Bond Resolution requires that, while the bonds are outstanding, there be on deposit in the reserve funds an amount equal to the maximum amount of principal installments and interest coming due during the current or any succeeding year. The Council has both the intent and the ability to hold long-term securities until final maturity and thus is limited in its exposure to interest rate risk on these long-term obligations.

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**7 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)**Concentration of Credit Risk - West Virginia Money Market Pool

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

Concentration of Credit Risk - All Other Investments

The Authority's investment guidelines for the Council manage concentration of credit risk by limiting its investment activity so that at any time its total investment portfolio will not exceed the percentage limits as to the permitted investments. The enterprise fund investment portfolio's percentage of permitted investments is shown below:

<u>Permitted Investments</u>	<u>Maximum Percentage of Portfolio</u>	<u>Enterprise Fund Percentage as of June 30, 2013</u>
(a) Direct Federal Obligations	100%	32.58%
(b) Federally Guaranteed Obligations	100%	-
(c) Federal Agency Obligations	90%	-
(d) Money Markets	90%	65.73%
(e) Repurchase Agreements/Investment Contracts	90%	1.69%
(f) Time Deposits/Certificates of Deposit	90%	-
(g) Demand Deposits	30%	-
(h) Corporate Obligations	15%	-
(i) Other State/Local Obligations	15%	-
(j) West Virginia Obligations	15%	-
(k) Housing Bonds – Secured by Annual Contributions Contracts	5%	-

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

All other investments listed above that comprise more than 15% of the investment portfolio must be either provided by an institution with a rating of at least "A/A" by Moody's and/or Standard and Poor's, invested in a money market fund rated "AAAm" or "AAAm-G" or better by Standard and Poor's, secured by obligations of the United States or not exceed the insurance limits established by the FDIC unless adequate collateral is provided.

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**7 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)**Credit Risk - West Virginia Money Market Pool

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The WV Money Market Pool has been rated AAAm by the Standard & Poor's. A fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. The BTI itself has not been rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P-1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the WV Money Market Pool's investments (in thousands):

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Commercial paper	P-1	A-1+	\$ 243,538	9.76 %
	P-1	A-1	726,857	29.12
Corporate bonds and notes	Aa3	AA-	10,000	0.40
U.S. agency bonds	Aaa	AA+	66,603	2.67
U.S. Treasury notes*	Aaa	AA+	279,755	11.21
U.S. Treasury bills*	P-1	A-1+	34,993	1.40
Negotiable certificates of deposit	Aa1	AA-	10,000	0.40
	Aa2	A+	9,000	0.36
	Aa3	AA-	15,000	0.60
	P-1	A-1+	50,000	2.00
	P-1	A-1	160,000	6.41
	P-2	A-1	15,000	0.60
U.S. agency discount notes	P-1	A-1+	445,784	17.86
Money market funds	Aaa	AAAm	200,012	8.02
Repurchase agreements (underlying securities):				
U.S. treasury notes*	Aaa	AA+	188,826	7.57
U.S. agency notes	Aaa	AA+	40,500	1.62
			<u>\$ 2,495,868</u>	<u>100.00 %</u>

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

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**7 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)**Credit Risk - All Other Investments

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

Security Type	Moody's	Standard & Poors	Fair Value
<b>Investment of bond proceeds:</b>			
Guaranteed investment contracts	A2	AA-	\$ 5,178,223
<b>Investment of other revenues:</b>			
Money markets	Aaa-mf	AAAm	201,973,153
U.S. Treasury obligations	Aaa-mf	AAAm	100,085,497
West Virginia Money Market Pool	-	AAAm	<u>18,898</u>
Total cash equivalents and investments			<u>\$ 307,255,771</u>

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

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

Custodial Credit Risk - West Virginia Money Market Pool

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



## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**7 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)**Custodial Credit Risk - All Other Investments

The Authority's investment guidelines for the Council put certain restrictions on repurchase agreements, including the following: the Council can only enter into repurchase agreements with financial institutions having a credit rating of at least "A/A"; collateral is limited to direct federal, federally guaranteed or federal agency obligations; collateral is required to be delivered to a third-party custodian, the Council or the trustee; and, the financial institution must guarantee the aggregate market value of the collateral will equal or exceed the outstanding repurchase agreement by the margin specified in the respective repurchase agreement. As of June 30, 2013, the Council held no securities that were subject to custodial credit risk.

Foreign Currency Risk - All Investments

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

A reconciliation of investments as disclosed in this Note to the amounts reported on the Statement of Net Position - Proprietary Fund is as follows:

As disclosed in this Note:	
Total investments	\$ 307,255,771
Less: cash equivalents	<u>(201,992,051)</u>
Carrying amount of investments	<u>\$ 105,263,720</u>
As reported on the Statement of Net Position - Proprietary Fund:	
Investments	<u>\$ 105,263,720</u>

**8 - REFUNDINGS OF DEBT**

On December 19, 2012, the Council issued Series 2012 A refunding bonds, issued for \$27,435,000 with interest rates ranging from 2% to 4%, which were used to advance refund \$26,750,000 of the remaining balance of the Council's outstanding Series 2003 A revenue bonds which carried interest rates ranging from 4% to 5%. The proceeds of \$27,917,255 (including a net original issue premium of \$482,255) and other funds available to the Council were used to pay \$220,371 in underwriting fees and other issuance costs to purchase United States Treasury obligations. Those purchased securities were deposited in an irrevocable trust, with an escrow agent to provided for debt service on the refunded bonds as of June 30, 2013 through the redemption of the remaining Series 2003 A bonds scheduled to mature October 1, 2013. As a result of this advance refunding, \$26,750,000 of bonds are in substance defeased; therefore the liability for those bonds have been removed from the accompanying financial statements.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$1,357,984. This difference is being amortized through fiscal year 2040. The Authority completed the refunding to reduce its total debt service payments over the next 26 years by \$6,855,389, resulting in an economic gain (difference between the present values of the old and new debt service payments) of \$5,142,269.

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**9 - LONG -TERM DEBT**

The following is a summary of changes in long-term debt for the year ended June 30, 2013:

	Balance July 1, 2012	Additions/ Accretions	Debt Reductions	Balance June 30, 2013
Governmental Fund Type:				
General Obligation Bonds*				
1996 Series A and D	\$ 14,245,000	\$ -	\$ -	\$ 14,245,000
1998 Series A	26,100,000	-	-	26,100,000
1999 Series C	9,450,000	-	1,425,000	8,025,000
1999 Series A Capital Appreciation	82,060,434	4,251,691	7,150,000	79,162,125
2006 Series A Refunding	89,355,000	-	3,575,000	85,780,000
2011 Series A Refunding	18,150,000	-	3,020,000	15,130,000
	<u>239,360,434</u>	<u>4,251,691</u>	<u>15,170,000</u>	<u>228,442,125</u>
	Balance July 1, 2012	Additions/ Accretions	Debt Reductions	Balance June 30, 2013
Business type activity:				
Revenue and Refunding Bonds				
2003 Series A	\$ 27,870,000	\$ -	\$ 27,870,000	\$ -
2006 Series A	41,400,000	-	735,000	40,665,000
2006 Series B	9,865,000	-	65,000	9,800,000
2007 Series A	36,575,000	-	560,000	36,015,000
2012 Series A Refunding	-	27,435,000	-	27,435,000
	<u>115,710,000</u>	<u>27,435,000</u>	<u>29,230,000</u>	<u>113,915,000</u>
<b>Total</b>	<u>\$ 355,070,434</u>	<u>\$ 31,686,691</u>	<u>\$ 44,400,000</u>	<u>\$ 342,357,125</u>

Debt Service Fund

\*A 1994 Constitutional Amendment authorized the issuance of \$300,000,000 in Infrastructure General Obligation Bonds. The Infrastructure General Obligation Bonds were issued in four separate issues totaling \$299,993,910: Series 1996A - \$35,300,000; Series 1996B \$14,700,000; Series 1996C - \$10,000,000; Series 1996D - \$50,000,000; Series 1996E - \$7,000,000; Series 1998A - \$68,000,000; Series 1998B - \$10,000,000; Series 1998C - \$14,000,000; Series 1999A - \$69,693,910; Series 1999B - \$7,300,000; and Series 1999C - \$14,000,000. In November 2006, the Infrastructure General Obligation Refunding Bonds, Series 2006, partially refunded the Series 1996A, Series 1996D and Series 1998A Bonds. In September 2011, the Infrastructure General Obligation Refunding Bonds, Series 2011A, refunded the Series 1996B, Series 1998B, and Series 1999B Bonds.

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**9 - LONG -TERM DEBT (Continued)**

The proceeds from the Council's bond programs provide financial assistance to infrastructure and economic development projects throughout the state. All general obligation bonds are considered a moral obligation of the State of West Virginia. The source of repayment for the general obligation, capital appreciation, and refunding bonds is the annual receipt of \$24 million of mineral severance tax revenue deposited into the Governmental Fund from the State's general fund. Principal, net of accretion, and interest paid on these bonds were \$15,170,000 and \$7,707,499, respectively for the year ended June 30, 2013.

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

## General Obligation Bonds:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 8,355,000	\$ 7,264,275	\$ 15,619,275
2015	8,785,000	6,888,238	15,673,238
2016	9,260,000	6,459,684	15,719,684
2017	9,675,000	5,957,322	15,632,322
2018	10,285,000	5,405,453	15,690,453
	<u>46,360,000</u>	<u>31,974,972</u>	<u>78,334,972</u>
2019 - 2023	53,355,000	18,788,018	72,143,018
2024 - 2027	49,565,000	4,999,679	54,564,679
	<u>102,920,000</u>	<u>23,787,697</u>	<u>126,707,697</u>
	<u>\$ 149,280,000</u>	<u>\$ 55,762,669</u>	<u>\$ 205,042,669</u>

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**9 - LONG -TERM DEBT (Continued)**

## Capital Appreciation Bonds:

	Principal, net of amounts to be accrued in future years	Amounts to be accrued in future years	Total
2014	\$ 7,027,058	\$ 122,942	\$ 7,150,000
2015	6,621,208	478,792	7,100,000
2016	6,239,508	810,492	7,050,000
2017	5,974,772	1,150,228	7,125,000
2018	5,604,058	1,470,942	7,075,000
	<u>31,466,604</u>	<u>4,033,396</u>	<u>35,500,000</u>
2019 - 2023	27,927,422	13,722,578	41,650,000
2024 - 2026	19,768,099	17,731,901	37,500,000
	<u>47,695,521</u>	<u>31,454,479</u>	<u>79,150,000</u>
Total capital appreciation bonds	<u>79,162,125</u>	<u>\$ 35,487,875</u>	<u>\$ 114,650,000</u>
Total general obligation bonds	228,442,125		
Add: unamortized premium	4,793,432		
Less: amount due within one year	<u>(15,892,230)</u>		
Amount due after one year	<u>\$ 217,343,327</u>		

Business Type Activity

Future maturities of principal and interest of revenue and refunding bonds, with interest ranging from 2.625% to 5.50% and maturing through 2045, are as follows:

	Principal	Interest	Total
2014	\$ 2,710,000	\$ 4,844,838	\$ 7,554,838
2015	2,620,000	4,745,948	7,365,948
2016	2,720,000	4,640,223	7,360,223
2017	2,830,000	4,531,223	7,361,223
2018	2,940,000	4,416,673	7,356,673
	<u>13,820,000</u>	<u>23,178,905</u>	<u>36,998,905</u>

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**9 - LONG -TERM DEBT (Continued)**Business Type Activity (Continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019 - 2023	16,635,000	20,056,691	36,691,691
2024 - 2028	19,410,000	16,141,925	35,551,925
2029 - 2033	21,595,000	11,848,000	33,443,000
2034 - 2038	25,090,000	6,833,003	31,923,003
2039 - 2043	13,450,000	2,197,234	15,647,234
2044 - 2045	3,915,000	242,606	4,157,606
	<u>100,095,000</u>	<u>57,319,459</u>	<u>157,414,459</u>
Total revenue and refunding bonds	113,915,000	<u>\$ 80,498,364</u>	<u>\$ 194,413,364</u>
Add: unamortized premium	1,659,411		
Less: unamortized discount	(77,664)		
Less: amount due within one year	<u>(2,761,853)</u>		
Amount due after one year	<u>\$ 112,734,894</u>		

The primary source of repayment for the revenue and refunding bonds is the receipt of payments of principal and interest on a set of loans, known as defined loans, previously made to projects from general obligation and revenue bond proceeds. Repayments of principal and interest on the defined loans of \$8,081,762 and \$1,034,546 respectively were available for revenue bond debt service of \$7,454,695, comprised of \$2,480,000 for principal and \$4,974,695 for interest, respectively for the year ended June 30, 2013.

The bonds are subject to the arbitrage rebate provisions of the Internal Revenue Code which requires that 90% of excess investment earnings on the bond proceeds be paid to the United States Internal Revenue Service every five years in order for the bonds to maintain their tax-exempt status. As of June 30, 2013, the Council had no liability for excess investment earnings on bond proceeds.

In prior years, certain general obligation bonds and revenue bonds were defeased by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Council's financial statements. At June 30, 2013, there were \$10,810,000 in defeased general obligation bonds and \$37,098,575 in defeased revenue bonds outstanding.

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**10 - TRANSACTIONS WITH STATE OF WEST VIRGINIA AGENCIES**

The Council received \$24 million of mineral severance tax revenue from the State's general fund into the Debt Service Fund to accommodate the general obligation bonds debt service payments required in fiscal year 2013. Funds remaining after the payment of general obligation bonds debt service have been transferred to the Enterprise Fund to provide additional lending and granting capacity, which is consistent with the Council's purpose.

West Virginia Code §29-22-18a (Section 18a) created within the State's lottery fund in the State Treasury an excess lottery revenue fund from which moneys are disbursed in specific allocations to various State accounts, including the Council. If there are not sufficient revenues to fully comply with the funding requirements of Section 18a, remaining funds are distributed first to the economic development project fund; second, to the other funds from which debt service is to be paid; third, to the education improvement fund for appropriation by the Legislature to the promise scholarship fund; fourth, to the general purpose account to be expended pursuant to appropriation by the Legislature provided that, to the extent such revenues are not pledged in support of revenue bonds which are or may be issued from time to time under Section 18a; and then on a pro rata basis to the remaining State accounts, including the Council. During the year ended June 30, 2013, \$46 million was appropriated for and received by the Council.

During the year ended June 30, 2013, the Council contributed \$1,831,257 to the Bureau for Public Health for the required State match for the federally sponsored Drinking Water Treatment Revolving Fund to secure federal dollars and continue that program. Also during the year ended June 30, 2013, the Council contributed \$4,162,000 to the Department of Environmental Protection as required State match for the federally sponsored Clean Water State Revolving Fund for the purpose of securing federal dollars and continuing that program.

The West Virginia Water Development Authority (the Authority) as the fiduciary agent of the Council, pays for certain expenses on behalf of the Council. As of June 30, 2013, the Council had incurred \$792,698 of expenses of which \$119,790 remains unpaid at June 30, 2013.

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

General and administrative expenses in the enterprise fund expenses for the year ended June 30, 2013, were as follows:

Salaries and benefits	\$ 459,468
Legal	122,577
Consulting and professional	31,579
Rentals	365
Travel and training	11,187
Office supplies	20,063
Computer services	37,103
Telecommunications	6,817
Trustee	102,185
Insurance	555
Postage	<u>799</u>
Total general and administrative	<u>\$ 792,698</u>

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**12 - RISK MANAGEMENT**

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

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

The Council participates in the West Virginia Board of Risk and Insurance Management to obtain coverage for general liability, property damage, business interruption, errors and omissions, and natural disasters. Coverage is offered in exchange for an annual premium. There were no changes in coverage or claims in excess of coverage for the year ended June 30, 2013.

**13 - RESTRICTED NET POSITION**

Restrictions of net position are the result of constraints placed on the use of net position which have been imposed through third party bond indentures and enabling legislation. The enterprise fund Statement of Net Position reports \$628,787,330 of restricted net position, of which \$107,432,352 is restricted for the debt service related to the revenue bonds.

**14 - COMMITMENTS**

The Council's Enterprise Fund has issued commitments to loan or grant funds to qualifying applicants for a period of time contingent on numerous actions to be completed by the applicants. As of June 30, 2013, \$40,549,478 was designated by the Council for loans and grants. Additionally, the Council has designated \$1,684,200 for contributions to one State agency for the required State match for federally sponsored revolving funds.

**15 - NEW ACCOUNTING PRONOUNCEMENTS**

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will require the Council to record their proportionate share of the actuarially determined net pension obligation of the PERS and will be effective for the Council's June 30, 2015 financial statements. The Council has not yet determined the effect this statement will have on its financial statements.

**16 - SEGMENT INFORMATION**

The presentation of segment information for the Council's Enterprise Fund, which follows, conforms with GAAP and is comprised of the following segment:

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

## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS  
(Continued)**16 - SEGMENT INFORMATION (Continued)**

During the fiscal year ended June 30, 2013, the Council adopted a resolution to remove certain previously reported defined loans from the defined loan portfolio and replaced them with a new group of loans. The affect of this resolution created a restatement of the segment information beginning net position as of June 30, 2012 as follows:

Defined loan program segment:

Beginning net position as of June 30, 2012, as previously reported	\$ 112,073,243
Adjustment for segment replacement of certain loans	<u>62,357</u>
Beginning net position, as restated	<u>\$ 112,135,600</u>



## WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

## NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2013

**16 - SEGMENT INFORMATION (Continued)**

	<u>Defined Loan Program</u>
<u>ASSETS</u>	
Current	\$ 23,362,051
Noncurrent	<u>198,482,133</u>
Total assets	<u>\$ 221,844,184</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Losses on bond refundings	<u>\$ 2,498,008</u>
<u>LIABILITIES</u>	
Current	\$ 4,174,946
Noncurrent	<u>112,734,894</u>
Total liabilities	<u>116,909,840</u>
<u>NET POSITION</u>	
Restricted	<u>\$ 107,432,352</u>
<u>OPERATING REVENUE</u>	
Charges for services	\$ 1,034,546
<u>OPERATING EXPENSES</u>	
General and administrative	375,514
Interest on bonds	<u>5,120,382</u>
<u>OPERATING LOSS</u>	<u>(4,461,350)</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>	
Interest and investment revenue, net of arbitrage	275,127
Other	(250,400)
Transfers (net)	<u>(266,625)</u>
Change in net position	(4,703,248)
Beginning net position, as restated	<u>112,135,600</u>
Ending net position	<u>\$ 107,432,352</u>
<u>CASH FLOWS</u>	
Net cash provided (used) by:	
Operating activities	\$ (620,007)
Noncapital financing activities	282,122
Investing activities	7,375
Beginning cash and cash equivalents	<u>15,821,608</u>
Ending cash and cash equivalents	<u>\$ 15,491,098</u>

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

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of the West Virginia Infrastructure and Jobs Development Council (the Council), as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 7, 2013.

#### **Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Council's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

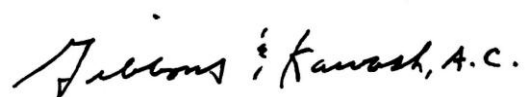
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

#### **Compliance and Other Matters**

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

### **Purpose of this Report**

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



Charleston, West Virginia  
October 7, 2013

Audited Financial Statements

# West Virginia Drinking Water Treatment Revolving Fund

Year Ended June 30, 2013

Audited Financial Statements  
WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND  
Year Ended June 30, 2013

TABLE OF CONTENTS

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

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the West Virginia Drinking Water Treatment Revolving Fund (the Fund), a component unit of the State of West Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2013, and the changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Fund's basic financial statements. The accompanying information as of and for the year ended June 30, 2013, as listed in the table of contents on page 18, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Charleston, West Virginia  
October 1, 2013

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**INTRODUCTION**

Our discussion and analysis of the West Virginia Drinking Water Treatment Revolving Fund's (the "Fund") financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the Fund's financial statements, which begin on page 7.

**FINANCIAL HIGHLIGHTS**

- Under the former American Recovery and Reinvestment Act (ARRA), the Drinking Water Treatment Revolving Fund was awarded \$19.5 million, of which \$19.25 million was to be distributed through the drinking water revolving loan program. Under the ARRA program at least 50% of the \$19,250,000 was required to be provided in the form of principal forgiveness loans (an approved loan type whereby the loan recipient is not required to repay the loan). The Fund closed fourteen (14) projects receiving ARRA funding over the life of the program. \$18.95 million of the \$19.25 million was provided in the form of principal forgiveness loans. The ARRA principal forgiveness loans are written off quarterly according to their respective debt service schedules. A total of \$3.73 million in ARRA principal forgiveness loans was written off during fiscal year 2013.
- The United States Environmental Protection Agency (the "EPA") authorized the Fund to issue principal forgiveness loans. These loans, which are issued to certain local government agencies or other eligible water providers will be forgiven on the 30th day of June in the fiscal year coinciding with the disbursement. These loans are deemed no longer outstanding after the last loan disbursement is forgiven. Therefore, it is the Fund's policy to maintain an allowance for principal forgiveness loans, equal to the amount of the disbursement, until the last disbursement is made. Consistent with the prior year, a large operating expense, loss on forgivable loans, was incurred due to the provisions of the EPA principal forgiveness loans. Total principal forgiveness loans disbursed during the fiscal year totaled \$3.3 million. The Fund's change in net position, therefore, consists of total revenues, less operating expenses and capital grants and contributions.
- The Fund's assets increased by \$12,754,188 or about 11%. This is largely due to an increase in the volume of loans issued and funds disbursed during the fiscal year. Because the Fund has no liabilities as of the current or prior year-end, this is also the amount of the increase in the Fund's net position. Expenses related to the administration of the Fund are reported in the separate financial statements of the West Virginia Drinking Water Treatment Revolving Fund Program Set Aside Funds.
- The Fund's revenues increased by \$232,185 or approximately 29%. This is primarily due to an increase in administrative fees of \$75,641, as well as an increase in interest on loans of \$175,169. There was a decrease in the user fee of \$27,160. The overall increase in revenues is due to an increase in loans closed over the past two plus years. The investment earnings increased by \$8,535 due to slightly higher interest rates over the course of the twelve month period.
- Capital grant and contribution awards from the EPA and the State of West Virginia (the "State") continue to provide the necessary resources to the Fund to carry out its mission. Federal and state awards for the Fund are described in footnote 5 in the accompanying financial statements. Capital grants and contributions received from the EPA and the State decreased by \$7,549,845 from the prior year. In fiscal years 2011 and 2010 there was an increase in the amount awarded to the Program from the EPA; however, the decrease in fiscal years 2012 and 2013 is concurrent with the expectation that in the coming fiscal years the amounts awarded will return to historical levels.
- Fourteen (14) new loans were closed during the current year. Also, there are eight (8) additional loans that are still under construction that were closed in prior years, three (3) of which are substantially complete.



## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
(Unaudited)**USING THIS REPORT**

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

**THE FUND AS A WHOLE**

Assets of the Fund increased \$12,754,188 or about 11%. The Fund has no liabilities as of the current or prior year ended June 30. Therefore, the increase in assets is also the increase in the Fund's net position. Our analysis that follows focuses on the net position (Table 1) and changes in net position (Table 2) of the Fund's activities.

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

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Current assets	\$ 30,480,195	\$ 28,821,397
Loans receivable, less current maturities, net	<u>103,648,507</u>	<u>92,553,117</u>
<b>Total assets</b>	<u>\$ 134,128,702</u>	<u>\$ 121,374,514</u>
<b>Net position:</b>		
Restricted	<u>\$ 134,128,702</u>	<u>\$ 121,374,514</u>

**Table 2**  
**Statements of Revenues, Expenses, and Changes in Fund Net Position**

	<u>2013</u>	<u>2012</u>
<b>Revenues:</b>		
<b>Operating revenues:</b>		
Administrative fees	\$ 462,810	\$ 387,169
Interest on loans	530,975	355,806
User fees	<u>11,206</u>	<u>38,366</u>
Total operating revenues	1,004,991	781,341
<b>Investment earnings</b>	<u>31,103</u>	<u>22,568</u>
Total revenues	1,036,094	803,909
<b>Operating expenses</b>	<u>(3,284,955)</u>	<u>(3,129,107)</u>
Income before capital grants and contributions	<u>(2,248,861)</u>	<u>(2,325,198)</u>
Capital grants and contributions	<u>15,003,049</u>	<u>22,552,894</u>
Increase in net position	<u>12,754,188</u>	<u>20,227,696</u>

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
(Unaudited)**THE FUND AS A WHOLE (Continued)**

Most of the increase in the Fund's assets, and therefore its net position, is attributable to both the capital grants and contributions received in the current year from the EPA in the amount of \$13,171,792 and the State match through the West Virginia Infrastructure and Jobs Development Council in the amount of \$1,831,257 totaling \$15,003,049. Of the \$13,171,792 received from the EPA in the current year, \$2,479,817 was disbursed with an agreed 100% loan forgiveness feature. 100% of the EPA amount was for eligible costs reviewed and approved by the Fund and was disbursed as loans to local governmental agencies to assist in drinking water infrastructure projects and is included on the balance sheet in "Loans Receivable." Of the \$1,831,257 received from the State during the current year, \$1,953 remains available. In addition, \$1,887,685 in cumulative investment earnings on current and previous State match amounts combine to total \$1,889,638, in funds that have been committed to drinking water infrastructure projects but have not yet been expended. These moneys are invested with the West Virginia Board of Treasury Investments and are included on the balance sheet as "Cash Equivalents."

Capital grant income from the EPA is recognized after the Fund has reviewed and approved supporting invoices for disbursements of loan proceeds to local governmental agencies and the federal portion of those disbursements has been received by the Fund. Capital grant income from the EPA decreased \$4,812,902 from the prior year. The sources of funding for loans to local governmental agencies, besides the capital grant income from the EPA, and the State match, include revolving loan repayments, and investment earnings, both of which have increased \$1,070,140 from prior year. Fourteen (14) loans closed during the current year, totaling \$21,180,215. Five (5) loans closed in the first quarter, two (2) closed in each of the second and third quarters, and five (5) closed in the fourth quarter.

Total revenues, including operating revenues and investment earnings totaled \$1,036,094. This was an increase of \$232,185 from prior year. This was attributed to an increase in administrative fees of \$75,644 over the prior year as well as an increase in interest on loans of \$175,169 over the prior year and a decrease in the user fee of \$27,160 over the prior year.

The fourteen loans that closed in the current year totaled \$21,180,215. The amounts disbursed for these loans were \$6,123,350 of which \$3,714,042 represented federal funds with \$9,695 of those funds being principal forgiveness and \$1,072,532 represented state match, with \$2,805 of those funds being principal forgiveness. \$1,336,776 represented proceeds from loan repayments with \$94,423 of those funds being principal forgiveness. The amount disbursed during the current year for loans closed in prior years totaled \$13,187,246 of which \$9,457,750 represented federal funds with \$2,470,122 of those funds being principal forgiveness, \$2,709,717 represented State match with \$707,910 of those funds being principal forgiveness, and \$1,019,779 represented proceeds from loan repayments. The sum of all disbursements for the years ended June 30, 2013 and 2012 was \$19,310,596 and \$23,138,538, respectively.

**COMMITMENTS AND PENDING APPLICATION FOR EPA GRANT**

As of June 30, 2013, the Fund had outstanding binding commitments to loan to qualified recipients of \$10.6 million, and an additional \$215,670 awarded by the EPA but not yet disbursed for approved drinking water infrastructure projects. Funding for approved projects will come from resources currently available to the Fund such as loan repayments as well as federal capital grants and State matches to be paid to the Fund in future periods. As of the year ended June 30, 2013, the Fund has \$22,871,737 in cash equivalents available for these projects. Additionally, the Fund has \$359,427 of cash equivalents from user fees obtained from a State Settlement with the West Virginia American Water Company in 2004. These funds will be used for future drinking water infrastructure projects.

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND****MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
(Unaudited)****COMMITMENTS AND PENDING APPLICATION FOR EPA GRANT (Continued)**

The West Virginia Bureau for Public Health intends to submit an application to the EPA for a grant for the Fund for the fiscal year 2014 grant period. The application, if approved, would result in an award from the EPA of \$5,810,490. The \$1,684,200 State match has been committed to the Fund in order to secure the federal funds. The total of \$7,494,690, if awarded to the Fund, would be used to provide forgivable, no-interest or low-interest loans to assist in financing approved drinking water infrastructure projects, including projects approved as of June 30, 2013, as noted above.

The EPA Capitalization Grant awarded but not yet disbursed for fiscal year 2013 contains a provision which requires that not less than twenty (20) and not more than (30) percent of each grant be provided to eligible water system loan recipients in the form of grants, negative interest, or principal forgiveness. The potential fiscal year 2014 grant not yet awarded will contain the same provision. The principal forgiveness will be provided to the loan recipients as a separate loan agreement. The principal forgiveness requirement is expected to remain a grant condition in the near future. While this new provision will not directly enhance the Fund, the plan is that it will assist in meeting the Fund's goal of providing safe drinking water infrastructure to West Virginia residents.

**CONTACTING THE FUND'S MANAGEMENT**

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

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

## STATEMENT OF NET POSITION

June 30, 2013

ASSETS

## Current assets:

Cash and cash equivalents	\$ 23,231,164
User fees receivable	3,023
Administrative fees receivable	40,785
Accrued interest receivable	61,007
Current maturities of loans receivable	<u>7,144,216</u>
Total current assets	30,480,195

Loans receivable, less current maturities	<u>103,648,507</u>
(net of principal forgiveness of \$19,462,166)	
Total assets	<u>\$ 134,128,702</u>

NET POSITION

Net position, restricted	<u>\$ 134,128,702</u>
Total net position	<u>\$ 134,128,702</u>

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

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Year Ended June 30, 2013

Operating revenues:	
Administrative fees	\$ 462,810
Interest on loans	530,975
User fees	11,206
	<u>1,004,991</u>
Operating expense:	
Grant expense - principal forgiveness	<u>3,284,955</u>
Operating loss	(2,279,964)
Nonoperating revenues:	
Investment income	<u>31,103</u>
Loss before capital grants and contributions	<u>(2,248,861)</u>
Capital grants and contributions:	
U.S. Environmental Protection Agency	13,171,792
State of West Virginia	1,831,257
	<u>15,003,049</u>
Increase in net position	12,754,188
Net position, beginning of year	<u>121,374,514</u>
Net position, end of year	<u>\$ 134,128,702</u>

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

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

## STATEMENT OF CASH FLOWS

Year Ended June 30, 2013

Operating activities:	
Cash payments for:	
Loans originated	\$ (19,312,634)
Cash receipts from:	
Principal repayments	4,144,906
Administrative fees	454,755
Interest on loans	524,601
User fees	<u>13,929</u>
Net cash and cash equivalents used in operating activities	<u>(14,174,443)</u>
Capital and related financing activities:	
Capital grants and contributions received:	
U.S. Environmental Protection Agency	13,171,792
State of West Virginia, Infrastructure and Jobs Development Council	<u>1,831,257</u>
Net cash provided by capital and related financing activities	<u>15,003,049</u>
Investing activities:	
Investment income	<u>31,103</u>
Net increase in cash and cash equivalents	859,709
Cash and cash equivalents, beginning of year	<u>22,371,455</u>
Cash and cash equivalents, end of year	<u>\$ 23,231,164</u>
Reconciliation of operating loss to net cash and cash equivalents used in operating activities:	
Operating loss	\$ (2,279,964)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities:	
Increase in loans receivable	(11,882,773)
Increase in administrative fees receivable	(8,055)
Increase in accrued interest receivable	(6,374)
Decrease in user fees receivable	<u>2,723</u>
Net cash and cash equivalents used in operating activities	<u>\$ (14,174,443)</u>
Supplemental disclosure of noncash activities:	
New loans originated with principal forgiveness features	<u>\$ 3,284,955</u>

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

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

## NOTES TO FINANCIAL STATEMENTS

**1 - DESCRIPTION OF THE FUND**

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

The Fund has received capital grants and contributions from the United States Environmental Protection Agency (the "EPA"), and the State, which is required to provide an additional twenty percent of the federal award as matching funds in order to qualify for funding. As of June 30, 2013, Congress has authorized the EPA to award \$159,582,782 in capitalization grants to the State, of which \$121,512,943 is allocated to the fund. The state is required to contribute \$28,016,557 in matching funds to the Fund, which are provided through the West Virginia Infrastructure and Jobs Development Council.

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

**2 - SIGNIFICANT ACCOUNTING POLICIES**Basis of Presentation

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

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

Use of Estimates

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

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS  
(Continued)**2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**Cash and Cash Equivalents

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

Loans Receivable

The State operates the Fund as a perpetual revolving loan program, whereby loans made to local governmental agencies or other eligible water providers are funded by a federal capitalization grant, including amounts awarded under the former American Recovery and Reinvestment Act of 2009 (ARRA), and the State matching amount and/or repayments from existing loans. Loan funds are disbursed to the local governmental agencies or other eligible water providers as costs are incurred on approved projects. Interest, if applicable, is not paid during construction but begins accruing three months before the date that local governmental agencies or other eligible water providers begin repayment; and the payment schedule is adjusted for actual amounts disbursed and interest accrued on those disbursements. The loans are secured by a lien on the revenues of the local governmental agencies' or other eligible water providers' water systems and by debt service reserve funds held by the West Virginia Municipal Bond Commission. According to the terms as set forth in the ARRA, management believes that it is probable that certain of the local government agencies will fulfill specific ARRA program requirements allowing for principal forgiveness, and as such a 100% principal forgiveness valuation has been made for certain of these program loans through the year ended June 30, 2013.

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

As of June 30, 2013, with the exception of forgivable loans, no provision for uncollectible accounts has been made because management believes that the loans will be repaid according to the loan terms. There are no principal or interest payments in default.

Administrative Fees

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



## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS  
(Continued)**2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**Capital Grants and Contributions

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

Net Position

Net position is reported as restricted. Restricted net position is the result of constraints placed on its use which have been imposed by the grantor agency and by law through enabling legislation.

Operating Revenues and Expenses

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

**3 - CASH AND CASH EQUIVALENTS**

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

**Credit risk** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The WV Money Market Pool has been rated AAAM by the Standard & Poor's. A fund rated "AAAM" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market and/or liquidity risks. "AAAM" is the highest principal stability fund rating assigned by Standard & Poor's. The BTI itself has not been rated for credit risk by any organization.

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS  
(Continued)**3 - CASH AND CASH EQUIVALENTS (Continued)**

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P-1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the WV Money Market Pool's investments (in thousands):

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Commercial paper	P-1	A-1+	\$ 243,538	9.76 %
	P-1	A-1	726,857	29.12
Corporate bonds and notes	Aa3	AA-	10,000	0.40
U.S. agency bonds	Aaa	AA+	66,603	2.67
U.S. Treasury notes*	Aaa	AA+	279,755	11.21
U.S. Treasury bills*	P-1	A-1+	34,993	1.40
Negotiable certificates of deposit	Aa1	AA-	10,000	0.40
	Aa2	A+	9,000	0.36
	Aa3	AA-	15,000	0.60
	P-1	A-1+	50,000	2.00
	P-1	A-1	160,000	6.41
	P-2	A-1	15,000	0.60
	P-1	A-1+	445,784	17.86
U.S. agency discount notes	Aaa	AAAm	200,012	8.02
Repurchase agreements (underlying securities):				
U.S. treasury notes*	Aaa	AA+	188,826	7.57
U.S. agency notes	Aaa	AA+	<u>40,500</u>	<u>1.62</u>
			<u>\$ 2,495,868</u>	<u>100.00 %</u>

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

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

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

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS  
(Continued)**3 - CASH AND CASH EQUIVALENTS (Continued)**

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

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

<u>Security Type</u>	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 229,326	3
U.S. treasury notes	279,755	132
U.S. treasury bills	34,993	77
Commercial paper	970,395	43
Certificates of deposit	259,000	66
U.S. agency discount notes	445,784	47
Corporate bonds and notes	10,000	60
U.S. agency bonds	66,603	139
Money market funds	<u>200,012</u>	1
	<u>\$ 2,495,868</u>	52

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

**4 - LOANS RECEIVABLE**

As of June 30, 2013, loans receivable consisted of loans to local governmental agencies (LGA's) or other eligible water providers for qualifying projects which comply with the Act. The Fund issued \$3,284,955 in loans whose principal was forgiven during the year ended June 2013 in accordance with funding covenants provided by the EPA. Accordingly a valuation account for expected principal forgiveness has been recorded as of June 30, 2013 for the total allotment of anticipated qualifying principal forgiveness loans. During the year, the Fund disbursed \$16,027,679 of loans which are required to be repaid in accordance with the loan agreements.

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

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

Loans receivable consisted of the following at June 30, 2013:

Loans without principal forgiveness features	\$ 110,812,515
ARRA loans	15,401,657
EPA principal forgiveness loans (original principal of \$5,727,513)	<u>4,040,717</u>
Total loans outstanding	130,254,889
Less:	
Allowance for principal forgiveness programs	19,462,166
Current maturities	<u>7,144,216</u>
Total loans receivable, net of current maturities and principal forgiveness	<u>\$ 103,648,507</u>

Non-principal forgiveness loans mature at various intervals through March 2044, ARRA and EPA principle forgiveness loans will be forgiven over various periods through September 2042. The scheduled principal payments on principal forgiveness loans maturing in subsequent years and annual principal forgiveness in future years are as follows at June 30:

2014	\$ 7,144,216
2015	7,855,649
2016	8,003,058
2017	8,048,912
2018	8,086,551
Thereafter	<u>107,182,426</u>
	146,320,812
Less loans closed but not disbursed at June 30, 2013	<u>16,065,923</u>
	130,254,889
Less current maturities	<u>7,144,216</u>
	123,110,673
Less allowance for principal forgiveness programs	<u>19,462,166</u>
Total loans receivable, net of current maturities and principal forgiveness	<u>\$ 103,648,507</u>

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS  
(Continued)**5 - CAPITAL GRANTS AND CONTRIBUTIONS**

The Fund is awarded grants from the EPA as authorized by the Act and the State provides matching funds from the West Virginia Infrastructure and Jobs Development Council's Infrastructure Fund. Funds drawn are recorded as capital grants and contributions from the EPA and the State. As of June 30, 2013, the cumulative amounts awarded to the Fund from the EPA and the contributed matching funds from the State were as follows:

<u>Effective Award Date</u>	<u>EPA Grant</u>	<u>State Match</u>
09/11/1998	\$ 9,076,449	\$ 2,511,760
06/11/1999	12,965,142	2,917,020
12/10/2001	5,352,330	1,551,400
11/09/2002	5,374,479	1,557,820
10/23/2003	5,556,225	1,610,500
06/16/2005	5,522,829	1,600,820
12/01/2005	5,729,139	1,660,620
12/04/2006	5,716,995	1,657,100
12/19/2007	5,678,217	1,645,860
11/07/2008	6,089,460	1,645,800
06/15/2009*	15,350,000	-
08/03/2009*	3,900,000	-
10/01/2009	5,620,740	1,629,200
07/29/2010	7,345,036	1,629,200
9/22/2010	9,466,950	2,714,600
9/15/2011	6,394,920	1,853,600
1/20/2012	150,000	-
9/20/2012	<u>6,224,032</u>	<u>1,831,257</u>
Total	<u>\$ 121,512,943</u>	<u>\$ 28,016,557</u>

\* ARRA funds did not require a State match.

The following represents the amounts of EPA grants and State matching funds received by the Fund through June 30, 2013:

<u>Cumulative Through</u>	<u>Federal</u>	<u>State</u>	<u>Total Capital Grants and Contributions</u>
June 30, 2013	<u>\$ 121,297,273</u>	<u>\$ 28,016,557</u>	<u>\$ 149,313,830</u>

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS  
(Continued)**6 - COMMITMENTS**

The Fund has established a list of local governmental agencies that have formally been recommended by the West Virginia Infrastructure and Jobs Development Council and approved by the Bureau for Public Health to participate in future lending activities consistent with the guidelines of the Act. The following is a list of outstanding commitments as of June 30, 2013:

<u>Local Governmental Agency (County)</u>	<u>Commitment Date</u>	<u>Amount Committed by the Fund</u>
Capon Bridge, Town of	5/21/2013	\$ 2,482,000
Stonewood, a City of Harrison County	5/29/2013	3,339,191
Preston County PSD #4	1/14/2013	3,607,427
Chapmanville Municipal Water Works	5/29/2013	<u>1,205,000</u>
Total		<u>\$ 10,633,618</u>

In addition, the Fund has awarded amounts not yet disbursed of approximately \$15,893,623 for projects previously approved and in various stages of completion.

**7 - RISK MANAGEMENT**

The Fund is exposed to various risks of loss related to torts and errors and omissions. Through its participation in the West Virginia Board of Risk and Insurance Management, the Fund obtained coverage for general liability, business interruptions, and errors and omissions. Such coverage is provided in exchange for an annual premium. There were no changes in coverage or claims in excess of coverage for the year ended June 30, 2013.

**8 - USER FEE**

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

## WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

## SCHEDULES OF ADMINISTRATIVE FEES ACTIVITY

June 30, 2013

## Schedule of assets and fund net position

## Assets:

Cash and cash equivalents	\$ 3,052,340
Administrative fees receivable	<u>40,785</u>

Total assets	<u>\$ 3,093,125</u>
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Restricted fund net position	<u>\$ 3,093,125</u>
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Total fund net position	<u>\$ 3,093,125</u>
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## Schedule of administrative fees activity in fund net position

## Revenues:

Administrative fees	\$ 462,810
Interest on investments	<u>3,721</u>

Total revenues	<u>\$ 466,531</u>
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## Expenses:

Administrative expense	\$ <u>          -</u>
Net income	466,531

Restricted fund net position - administrative fees, beginning of year	<u>2,626,594</u>
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Restricted fund net position - administrative fees, end of year	<u>\$ 3,093,125</u>
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## Schedule of cash flows

Net income	\$ 466,531
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Adjustments to reconcile net income to net cash provided by administrative fees and interest on investments:	
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Increase in administrative fees receivable	<u>(8,055)</u>
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Net cash provided by administrative fees and interest on investments	458,476
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Cash and cash equivalents, beginning of year	<u>2,593,864</u>
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Cash and cash equivalents, end of year	<u>\$ 3,052,340</u>
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR A FEDERAL  
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE WHEN  
USING THE PROGRAM-SPECIFIC AUDIT OPTION TO SATISFY OMB CIRCULAR  
A-133 REQUIREMENTS**

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

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

We have audited the West Virginia Drinking Water Treatment Revolving Fund (the Fund's) compliance with the types of compliance requirements described in OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on the Capitalization Grants for Drinking Water State Revolving Funds for the year ended June 30, 2013.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Capitalization Grants for Drinking Water State Revolving Funds program occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Fund's Capitalization Grants for Drinking Water State Revolving Funds program. However, our audit does not provide a legal determination of the Fund's compliance.

***Opinion***

In our opinion, the Fund complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Capitalization Grants for Drinking Water State Revolving Funds for the year ended June 30, 2013.



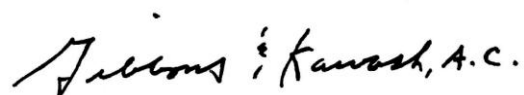
## Report on Internal Control Over Compliance

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

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

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

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



Charleston, West Virginia  
October 1, 2013