



**WV WATER DEVELOPMENT AUTHORITY
FY 2016 ANNUAL REPORT**

**Earl Ray Tomblin
Governor**

**Chris E. Jarrett
Executive Director**

Issued December, 2016

www.wvwda.org



WEST VIRGINIA
Water Development Authority

Earl Ray Tomblin
Governor

ANNUAL REPORT FISCAL YEAR 2016

BOARD

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Authority

Chris E. Jarrett
Executive Director

**STATE OF WEST VIRGINIA
WATER DEVELOPMENT AUTHORITY**

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STATE OF WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

MISSION

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

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

ESTABLISHMENT

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

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

As of June 30, 2016, the WDA had a staff of ten and utilizes professional services to supplement its staff as needed. The WDA is self-supporting and does not receive State appropriations for operating expenses or bond programs.

GOALS

- Assist communities in obtaining loan and grant funds to help meet an the needs for adequate publicly owned water and wastewater systems, which improve health conditions as well as achieve and maintain compliance with State and federal water quality laws. As of June 30, 2016, there were \$59 million in projects that were partially funded and \$594 million in projects that were deemed technically feasible and requiring funding.
- Administer loans and grants through the execution of payments to LGA's, monitoring repayments per loan agreements, and reconciling balances with the Municipal Bond Commission in order to protect capital investments and the WDA's and State's credit ratings for its revenue bond programs.
- Secure the maximum federal funding available each year under the CWSRF for wastewater projects and the DWTRF for drinking water projects by providing the required 20% match.

OBJECTIVES

- Maximize and leverage the use of all available State, federal and local funding sources by participating in the West Virginia Infrastructure and Jobs Development Council's technical and financial review process on all proposed water and wastewater projects.
- Serve as a voting member on the West Virginia Infrastructure and Jobs Development Council.
- Assist in the commitment of available Clean Water State Revolving Fund, Drinking Water Treatment Revolving Fund, West Virginia Infrastructure Fund and WDA dollars to cost-effective and environmentally sound projects as expeditiously as possible.
- Ensure the availability of revolving dollars to meet future needs by assisting struggling or defaulting communities to resolve underlying problems indicated by repayment activity on loans.
- Verify compliance with loan agreements by conducting financial audit reviews on selected water and wastewater loan recipients.
- Obtain funds for the WDA and West Virginia Infrastructure Fund through public bond offerings to finance construction/improvement of water and wastewater systems.
- Provide accountability for funds managed through preparation of various reports, including financial statements that are audited annually.
- Provide Secondary Market Disclosure and Reporting and other information to rating agencies and bond insurers.

OBJECTIVES (continued)

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

RESPONSIBILITIES

- Managing the WDA's various loan programs and servicing its loans. As of June 30, 2016, total loans outstanding were \$209 million.
- Coordinating infrastructure-related revenue bond issuance activity.
- Serving as administrative agency for the Infrastructure and Jobs Development Council ("IJDC").
- Participating as a voting member of the IJDC.
- Serving as fiduciary of the IJDC's West Virginia Infrastructure Fund ("WVIF").
- Serving as administrative agency for the Department of Environmental Protection's Clean Water State Revolving Fund ("CWSRF").
- Serving as financial manager for the Bureau for Public Health's Drinking Water Treatment Revolving Fund ("DWTRF").
- Closing and servicing all loans funded by the WVIF, CWSRF, DWTRF and WDA.
- Maintaining financial records, preparing and analyzing financial statements and preparing underlying work papers for three programs that are audited annually by certified public accounting firms.
- Reviewing, approving and processing debt service semi-annually on general obligation and revenue bonds.
- Providing Secondary Market Disclosure and Reporting and other information to rating agencies and bond insurers.
- Communicating with the Water Development Board and other State agencies.
- Working with Local Governmental Agencies on project development and funding solutions.

RESPONSIBILITIES (Continued)

- Providing loans from other available funds for projects that are not eligible under the revenue bond programs.
- Providing Bridge Loans from other available funds for projects until revenue bond proceeds are available for permanent financing.

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

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

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

- Administering the local bond purchase process.
- Preparing loan agreements.
- Closing loans with Local Governmental Agencies.
- Disbursing payments to projects.
- Providing ongoing servicing functions for all loans outstanding as of June 30, 2016, which total \$146 million.
- Maintaining financial records, preparing and analyzing financial statements and preparing underlying work papers for the annual financial and compliance audits by a certified public accounting firm.
- Maintaining bonds, bond transcripts and project-related files for annual EPA program audits.
- Performing desk reviews of subrecipient audits.

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

- Administering the local bond purchase and grant process.
- Disseminating loan and grant agreements.
- Closing loans and grants with Local Governmental Agencies.
- Disbursing payments to projects.
- Providing ongoing servicing functions for all loans outstanding as of June 30, 2016, which total \$460 million for water/wastewater and \$86 million for economic development.
- Maintaining financial records, preparing and analyzing financial statements and preparing underlying work papers for the annual financial statement audit by a certified public accounting firm.

- Maintaining bonds, notes, bond transcripts and project-related files.

RESPONSIBILITIES (Continued)

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

ACCOMPLISHMENTS

- **Celebrated 42 Years of Service 1974 – 2016.**
- Closed 53 loans and grants totaling \$116 million this year to communities for water, wastewater and economic development projects.
- Provided servicing for over 839 loans (local bonds of communities) outstanding as of June 30, 2016 totaling \$1.275 billion.
- Acted in a fiduciary capacity for funding of loans and grants in excess of \$1.727 billion and continued to meet the challenge of enhancing and creating adequate infrastructure for the citizens of West Virginia.
- Established an online project application system for the Infrastructure Jobs and Development Council that tracks the life-cycle of the project. This system also interfaces with the WDA Bond Management System.

PROGRAMS

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

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

DEBT ADMINISTRATION

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

By statute, the maximum amount of bonds the WDA is authorized to have outstanding includes debt issued for the WDA and by the WDA on behalf of the West Virginia Infrastructure and Jobs Development Council. The amount of bonds or notes outstanding may not exceed \$500 million at any time; provided that before the WDA issues bonds or notes in excess of \$440 million, the State Legislature must pass a resolution authorizing this action. The WDA's long-term planning is accomplished within the confines of its authorized borrowing limit. The WDA continues to monitor its long-term outstanding debt for prepayment and refunding opportunities for debt service savings. While the redemption of bonds is economically prudent because of the resulting debt service savings, any reduction in the liability for long-term debt also enables the WDA to manage debt capacity for future needs as well as for new programs. At year end, the WDA had \$370 million in revenue and refunding bonds outstanding, including \$178 million in Infrastructure revenue Bonds.

CLEAN WATER STATE REVOLVING FUND

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

As of June 30, 2016, DEP had been awarded twenty-seven capitalization grant awards for the CWSRF from the EPA totaling \$639 million. The State is required to provide an additional twenty percent of the federal award as matching funds in order to qualify for funding. The State has contributed to the CWSRF \$111 million in matching funds, of which \$93 million has been contributed by the IJDC.

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

DRINKING WATER TREATMENT REVOLVING FUND

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

As of June 30, 2016, the Bureau for Public Health (“BPH”) had been awarded twenty capitalization grant awards from the EPA totaling \$185.7 million, one of those grant awards being a Stimulus Grant, of which \$140.6 million was allocated to the DWTRF and \$45.1 million for set-aside programs administered by the BPH. The State is required to provide an additional twenty percent of the federal award as matching funds in order to qualify for funding. On behalf of the State, the IJDC has contributed \$33.2 million in matching funds to the DWTRF.

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

WEST VIRGINIA INFRASTRUCTURE FUND

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

The IJDC consists of eleven voting members, including the Governor or designee as chairman and executive representation from the Housing Development Fund, Department of Environmental Protection, Economic Development Authority, WDA, Bureau for Public Health, and Public Service Commission and four members representing the general public.

Sources of funding for the IJDC, which funding must be allocated 80 percent to water and

wastewater projects and 20 percent to economic development projects, include appropriations, proceeds from general obligation and revenue bonds, video lottery proceeds, investment earnings and unrestricted loan repayments.

The WDA is the administrative agency for the IJDC and is fiduciary of the WVIF. The WDA provides administrative, financial and legal expertise to the IJDC and ongoing servicing on loans made from the WVIF. The WDA employs two additional individuals for the benefit of the IJDC. The WDA issues infrastructure revenue and refunding bonds, at the written request of the IJDC, to provide loans and other forms of financial assistance for infrastructure projects. Of the \$286 million in infrastructure revenue and refunding bonds that have been issued, including the Chesapeake Bay/Greenbrier Watershed bonds, \$178 million are outstanding.

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



WEST VIRGINIA

Water Development Authority

Celebrating 42 Years of Service 1974 - 2016

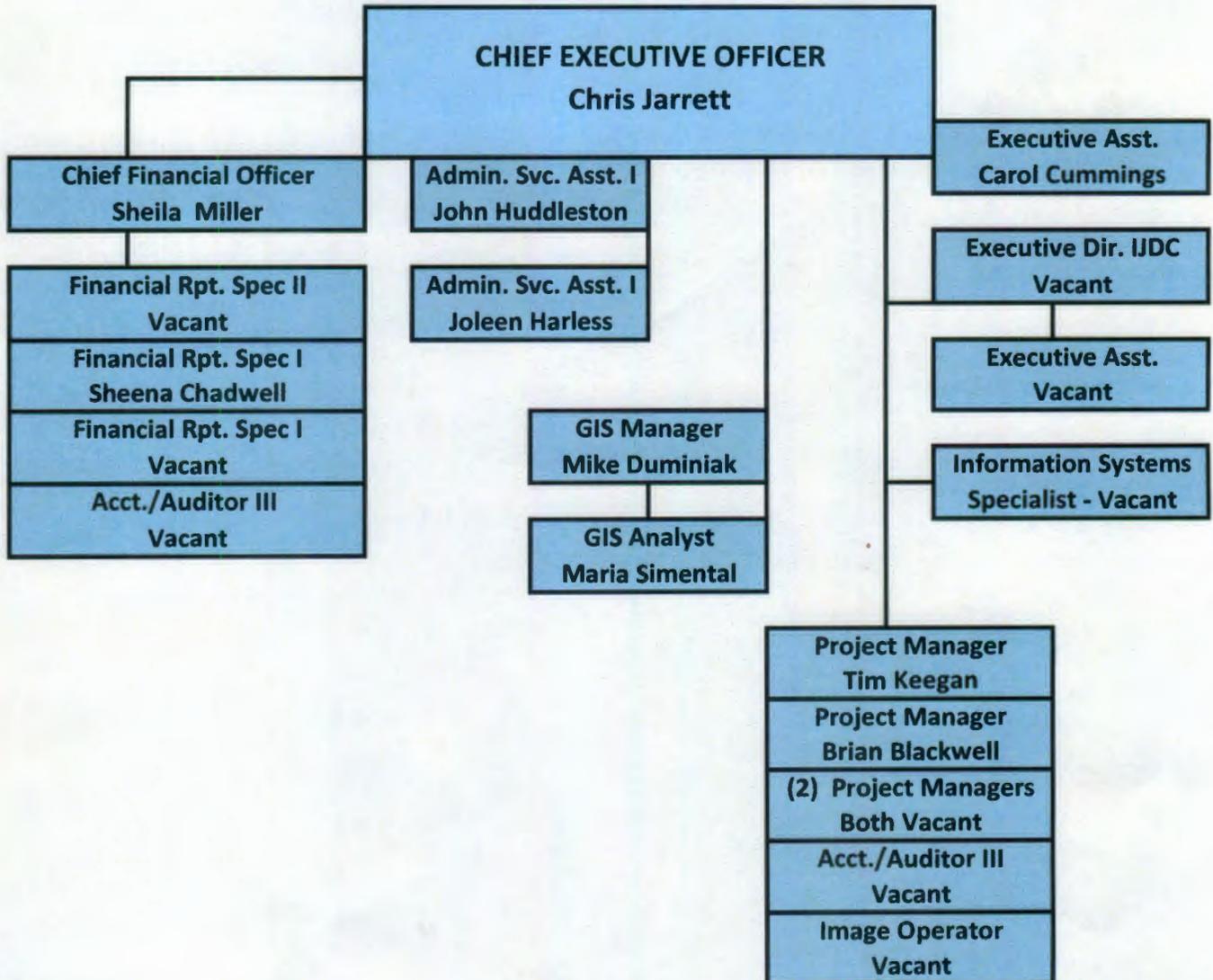
APPENDIX A

ORGANIZATIONAL CHART

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

FY 2016

ORGANIZATIONAL CHART





WEST VIRGINIA
Water Development Authority
Celebrating 42 Years of Service 1974 - 2016

APPENDIX B
WEST VIRGINIA WATER
DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS
WITH INDEPENDENT
AUDITORS' REPORT

Audited Financial Statements

West Virginia Water Development Authority

Year Ended June 30, 2016

Audited Financial Statements
WEST VIRGINIA WATER DEVELOPMENT AUTHORITY
Year Ended June 30, 2016

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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, 2016, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2016, 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.

**Emphasis of Matter**

As discussed in Note 15 to the financial statements, a legislative oversight commission has requested information relating to certain of the Authority's administrative expenses for review. This inquiry process has not been completed and management cannot presently determine the effect, if any, of the results of this inquiry on the Authority's financial position. Nevertheless, it is at least reasonably possible that an effect on the Authority's financial position could occur, although the amount cannot be estimated. Our opinion is not modified with respect to this matter.

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 and the schedule of proportionate share of the net pension liability and the schedule of contributions to the PERS on pages 32 through 34 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.

Charleston, West Virginia

October 25, 2016

**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 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, 2016, 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 and deferred outflows of resources, and liabilities and deferred inflows of resources, is one way to measure the Authority's financial health or financial position.

FINANCIAL HIGHLIGHTS

- Total assets of the Authority decreased \$6.4 million or 2%. Deferred outflows of resources decreased by \$538 thousand or 5%. There was a decrease in total liabilities of \$9.1 million or 4%. Deferred inflows of resources decreased \$5 thousand. Total net position increased \$2.1 million or approximately 3%.
- Total revenues decreased \$750 thousand or approximately 5%. This was primarily due to a decrease in charges for services of \$724 thousand and a decrease in other revenue of \$41 thousand, offset by an increase in interest and investment revenue of \$15 thousand.

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

FINANCIAL HIGHLIGHTS (Continued)

- Total expenses decreased \$82 thousand or less than 1%. This was primarily the combined result of a \$249 thousand decrease in interest expense and a \$168 thousand increase in operating expenses. The increase in operating expense is the result of additional depreciation expense for the office building and computer software.

THE AUTHORITY AS A WHOLE

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

	Table 1		
	Net Position		
	2016	2015	Increase
	WDA	WDA	(Decrease)
Assets			
Current assets	\$ 32,463,421	\$ 30,678,777	\$ 1,784,644
Non current assets	222,097,693	230,298,253	(8,200,560)
Total assets	\$ 254,561,114	\$ 260,977,030	\$ (6,415,916)
Deferred outflows of resources			
Deferred loss on bond refundings	\$ 9,677,292	\$ 10,341,589	\$ (664,297)
Deferred outflows of resources from pension amounts	213,676	87,220	126,456
Total deferred outflows of resources	\$ 9,890,968	\$ 10,428,809	\$ (537,841)
Liabilities			
Current liabilities	\$ 10,547,053	\$ 10,411,714	\$ 135,339
Net Pension Liability	241,080	151,290	89,790
Long-term debt outstanding	189,968,818	199,252,815	(9,283,997)
Total liabilities	\$ 200,756,951	\$ 209,815,819	\$ (9,058,868)
Deferred inflows of resources			
Deferred inflows of resources from pension amounts	\$ 155,415	\$ 160,044	\$ (4,629)
Total deferred inflows of resources	\$ 155,415	\$ 160,044	\$ (4,629)
Net position			
Net investment in capital assets	6,074,745	7,156,590	(1,081,845)
Restricted	26,168,147	24,767,832	1,400,315
Unrestricted	31,296,824	29,505,554	1,791,270
Total net position	\$ 63,539,716	\$ 61,429,976	\$ 2,109,740

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

THE AUTHORITY AS A WHOLE (Continued)

Total assets decreased \$6.4 million or 2%. Decreases to assets were the result of the use of assets to fund interest expense of \$8.4 million on bonds payable, scheduled principal payments on bonds payable of \$8.0 million, and general and administrative expenses of \$1.7 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 \$13.0 million and interest on investments of \$226 thousand. During the year, the Authority disbursed \$285 thousand in loans from unrestricted resources available to the authority.

Deferred Outflows of Resources decreased by \$538 thousand which was the result of current year amortizations of loss on refundings in the amount of \$664 thousand and offset by the deferred outflow of resources for pension expense and pension contributions in the amount of \$126 thousand, which is explained further in Note 9.

Total liabilities decreased approximately \$9.1 million or 4%. The majority of the decrease was in revenue bonds payable, which are presented on the balance sheet net of unamortized premiums.

Unrestricted net position increased \$1.8 million, primarily explained by the combined result of \$2.3 million net income in unrestricted accounts, a \$479 thousand transfer from the restricted portion of revenue bonds receivable in the four loan programs to current assets. Offsetting these increases was a decrease in revenue bonds receivable of \$157 thousand, a transfer from restricted liabilities of \$255 thousand for the current portion of revenue bonds payable and a decrease in assets held on behalf of others of \$500 thousand due to the sale of property.

Restricted net position increased \$1.4 million 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

	2016	2015	Increase
	WDA	WDA	(Decrease)
Revenues:			
Operating revenues:			
Charges for services	\$ 13,034,978	\$ 13,759,086	\$ (724,108)
Other	259,435	300,482	(41,047)
Total operating revenues	\$ 13,294,413	\$ 14,059,568	\$ (765,155)
Nonoperating revenues:			
Interest and investment revenue, net of arbitrage	\$ 221,130	\$ 205,864	\$ 15,266
Total revenues	\$ 13,515,543	\$ 14,265,432	\$ (749,889)
Expenses:			
Operating expenses	\$ 3,042,005	\$ 2,874,321	\$ 167,684
Nonoperating expenses:			
Interest expense	8,363,798	8,613,036	(249,238)
Total expenses	\$ 11,405,803	\$ 11,487,357	\$ (81,554)

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

THE AUTHORITY AS A WHOLE (Continued)

	2015	2014	Increase
	WDA	WDA	(Decrease)
Change in net position	2,109,740	2,778,075	(668,335)
Beginning net position	61,429,976	58,651,901	2,778,075
Ending net position	\$ 63,539,716	\$ 61,429,976	\$ 2,109,740

Charges for services decreased \$724 thousand. This is primarily due to closing no loans during the current year and to lower interest rates on loans already in the portfolio.

Other decreased \$41 thousand primarily due to a decrease in miscellaneous income. During fiscal year 2016 a settlement of \$37,500 was reached with JP Morgan for the sale of municipal securities. A settlement of \$80,000 was reached during fiscal year 2015 from JP Morgan.

Interest and investment revenue, net of arbitrage increased \$15 thousand due to slightly higher short term interest rates available to the Authority from period to period on comparable asset balances.

Operating expenses increased \$168 thousand from the prior year. This increase was primarily additional depreciation expense for the office building and computer software.

DEBT ADMINISTRATION

As a financing entity, the business of the Authority is debt issuance and administration, including servicing. By statute, the maximum amount of bonds the Authority is authorized to have outstanding includes debt issued for the Authority and by the Authority on behalf of the West Virginia Infrastructure and Jobs Development Council. While the redemption of bonds is economically prudent because of the resulting debt service savings, any reduction in the liability for long-term debt enables the Authority to manage debt capacity for future needs as well as for new programs. The Authority, therefore, continues to monitor its long-term outstanding debt for prepayment and refunding opportunities for debt service savings. At year end, the Authority had \$192 million in revenue and refunding bonds outstanding versus \$200 million in the prior year, a decrease of 4%.

As of June 30, 2016, National Public Finance Guarantee Corporation, the bond insurer for the West Virginia Water Development Authority Revenue Refunding Bonds (Loan Program II) 2005 Series A-II and B-II and 2006 Series A-II had a Standard & Poor's rating of AA-.

As of June 30, 2016, the 2012 Series A-I and B-I, 2012 Series A-II and B-II, 2013 Series A-II, and 2012 Series A-III and B-III had a Moody's rating of Aa3 and a Fitch rating of AA-.

As of June 30, 2016, 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.

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

DEBT ADMINISTRATION (Continued)

As of June 30, 2016, the West Virginia Water Development Revenue Bonds (Loan Program IV) 2005 Series B-IV had a Standard & Poor's rating of A-.

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

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

ECONOMIC FACTORS THAT MAY AFFECT THE AUTHORITY

At its October 15, 2015, meeting, the Board authorized the Authority to refund four bond issues to obtain debt service savings. Due to unforeseen circumstances the refunding was delayed. It is now expected to take place December 2016. The proceeds of the 2016 Series A-II (Loan Program II) will be used to refund the Authority's outstanding 2005 Series A-II bonds, 2005 Series B-II bonds, and 2006 Series A-II bonds. The proceeds of the 2016 Series A-IV (Loan Program IV) will be used to refund the Authority's outstanding 2005 Series A-IV bonds and the 2005 Series B-IV bonds.

The Authority is the fiscal agent of the West Virginia Infrastructure and Jobs Development Council (IJDC) and as such on October 5, 2016, the Council authorized the Authority to refund three bond issues in December 2016. The proceeds of the 2016 Series A bonds will be used to refund the IJDC's outstanding 2006 Series A bonds in the amount of \$37,185,000, 2006 Series B Bonds in the amount of \$9,495,000, and the 2007 Series A bonds in the amount \$33,560,000.

There are several unknown factors that may affect the Authority, including changes in existing Federal or State legislation, additional responsibilities for new environmental or drinking water demands, and market conditions that could affect the viability of future revenue bond issues and impact investment earnings. Additionally, the Authority invests funds not required for immediate disbursement as permitted by: statute, its bond resolutions and its "Investment Guidelines, Procedures and Controls."

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.wwwda.org).

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

STATEMENT OF NET POSITION

June 30, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$ 18,412,355
Receivables:	
Revenue bonds, net of unamortized discount of \$49,346	7,395,102
Supplemental revenue bonds	572,511
Interest	3,335,729
Administrative fees	1,724
Due from other agencies	218,125
Total unrestricted current assets	<u>29,935,546</u>

Restricted current assets:

Prepaid insurance	20,275
Investments	2,507,600
Total current assets	<u>32,463,421</u>

Noncurrent assets:

Revenue bonds	10,708,331
Investments	1,200,000
Capital assets, net	6,074,745
Total unrestricted noncurrent assets	<u>17,983,076</u>

Restricted assets:

Cash and cash equivalents	14,009,070
Receivables:	
Revenue bonds, net of unamortized discount of \$929,009	184,274,345
Supplemental revenue bonds	5,369,649
Prepaid insurance	461,553
Total restricted noncurrent assets	<u>204,114,617</u>
Total assets	<u>\$ 254,561,114</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on bond refundings	9,677,292
Deferred outflows of resources from pension amounts	213,676
Total deferred outflows of resources	<u>\$ 9,890,968</u>

(Continued)

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

STATEMENT OF NET POSITION
(Continued)

June 30, 2016

LIABILITIES

Current liabilities:

Accounts payable	\$ 102,620
Current portion of revenue bonds payable, including unamortized net premium of \$502,262	8,807,262
Accrued interest payable	<u>1,637,171</u>

Total current liabilities	<u>10,547,053</u>
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Noncurrent liabilities:

Accrued employee benefits	274,523
Net pension liability	241,080
Liabilities payable from restricted assets:	
Noncurrent portion of revenue bonds payable, including unamortized net premium of \$6,239,295	<u>189,694,295</u>

Total noncurrent liabilities	<u>190,209,898</u>
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Total liabilities	<u>\$ 200,756,951</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources from pension amounts	<u>\$ 155,415</u>
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NET POSITION

Restricted	\$ 26,168,147
Unrestricted	31,296,824
Net investment in capital assets	<u>6,074,745</u>

Total net position	<u>\$ 63,539,716</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, 2016

Operating revenues:	
Charges for services	\$ 13,034,978
Miscellaneous	<u>259,435</u>
Total operating revenues	<u>13,294,413</u>
Operating expenses:	
Depreciation and amortization	1,357,110
General and administrative	<u>1,684,895</u>
Total operating expenses	<u>3,042,005</u>
Operating income	<u>10,252,408</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	221,130
Interest expense	<u>(8,363,798)</u>
Total nonoperating expenses	<u>(8,142,668)</u>
Change in net position	2,109,740
Total net position, beginning of year	<u>61,429,976</u>
Total net position, end of year	<u>\$ 63,539,716</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, 2016

Cash flows from operating activities:	
Receipts of principal on bonds receivable	\$ 7,568,374
Receipts of interest on bonds receivable	13,112,472
Receipts of administrative fees on bonds receivable	259,517
Receipts of reimbursements from other agencies	1,029,510
Disbursements from issuance of bonds receivable	(285,019)
Disbursements of general and administrative expense	(1,210,893)
Disbursements on behalf of employees	(577,524)
Disbursements on behalf of other agencies	<u>(996,950)</u>
Net cash provided by operating activities	<u>18,899,487</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(254,994)</u>
Cash flows from noncapital financing activities:	
Principal paid on revenue and refunding bonds	(8,034,993)
Interest paid on revenue and refunding bonds	<u>(8,250,939)</u>
Net cash used in noncapital financing activities	<u>(16,285,932)</u>
Cash flows from investing activities:	
Sale of investments	798,493
Investment earnings	<u>215,803</u>
Net cash provided by investing activities	<u>1,014,296</u>
Net increase in cash and cash equivalents	3,372,857
Cash and cash equivalents, beginning of year	<u>29,048,568</u>
Cash and cash equivalents, end of year	<u>\$ 32,421,425</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 10,252,408
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization expense	1,357,110
Pension expense	33,426
Changes in operating accounts:	
Due from other agencies	32,560
Supplemental revenue bonds receivable	572,508
Revenue bonds receivable	6,661,502
Accrued interest receivable	126,839

(Continued)

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS
(Continued)

Year Ended June 30, 2016

Administrative fees receivable	82
Accounts payable	(85,486)
Accrued employee benefits	23,258
Deferred outflows of resources due to pension contributions	<u>(74,720)</u>
Net cash provided by operating activities	<u>\$ 18,899,487</u>

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

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS

1 - REPORTING ENTITY

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

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

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

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

2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Cash Equivalents

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

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

Investments

Investments are carried at fair 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, 2016, the Authority is not liable to the federal government as a result of arbitrage.

Deferred Outflows of Resources / Deferred Inflows of Resources

The statement of net position reports a separate financial statement element called *deferred outflows of resources*. This financial statement element represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense) until that time. The Authority reports losses on bond refunding as deferred outflows of resources and deferred outflows of resources related to pensions.

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

Pension

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

Net Position

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

3 - DEPOSIT AND INVESTMENT RISK DISCLOSURES

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

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

As of June 30, 2016, the Authority had the following investments and maturities:

<u>Type</u>	<u>Investment Maturities (in Years)</u>			
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
U.S. Treasury	\$ 3,707,600	\$ 2,507,600	\$ 1,200,000	\$ -
Money markets	<u>32,258,659</u>	<u>32,258,659</u>	-	-
	<u>\$ 35,966,259</u>	<u>\$ 34,766,259</u>	<u>\$ 1,200,000</u>	<u>\$ -</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 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, 2016, 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	90%

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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.

Credit Risk

The following table provides information on the credit ratings of the Authority's short-term investments as of June 30, 2016:

<u>Security Type</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Standard & Poors</u>	<u>Fair Value</u>
Money Markets	AAAmmf	Aaa-mf	AAAM	<u>\$ 32,258,659</u>

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

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

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.

Cash consisted of the following at June 30, 2016:

Operating cash on hand	\$ -
Cash on deposit with State Treasurer	<u>162,766</u>
Total	<u>\$ 162,766</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, 2016, is as follows:

Deposits:	
Cash and cash equivalents as reported on the Statement of Net Position	\$ 18,412,355
Add: restricted cash and cash equivalents	14,009,070
Less: cash equivalents and restricted cash equivalents disclosed as investments	<u>(32,258,659)</u>
Total cash as disclosed in this Note	<u>\$ 162,766</u>
Investments:	
Investments as reported on the Statement of Net Position	\$ 1,200,000
Add: restricted investments	2,507,600
Add: cash equivalents and restricted cash equivalents disclosed as investments	<u>32,258,659</u>
Total investments as disclosed in this Note	<u>\$ 35,966,259</u>

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)**4 - INVESTMENTS MEASURED AT FAIR VALUE**

The Authority measures the investments listed below at fair value for financial reporting purposes. GASB Statement No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. The Authority categorizes fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America in accordance with GASB Statement No. 72.

The fair value hierarchy established under GASB Statement No. 72 categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

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

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

Level 3 inputs - Unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The table below summarizes the recurring fair value measurements of the investment securities in accordance with GASB Statement No. 72 fair value hierarchy levels as of June 30, 2016.

<u>Investment Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Treasury	<u>\$ 3,707,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

5 - DUE FROM OTHER AGENCIES

Certain agencies of the State were indebted to the Authority at June 30, 2016, in connection with services performed by the Authority on behalf of the agencies. Amounts due the Authority at June 30, 2016, are as follows:

West Virginia Infrastructure and Jobs Development Council, net	\$ 172,161
Department of Environmental Protection Clean Water State Revolving Fund	26,173
Bureau for Public Health Drinking Water Treatment Revolving Fund	<u>19,791</u>
	<u>\$ 218,125</u>

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

As of June 30, 2016, the face value of revenue bonds of municipalities, public service districts and other political subdivisions purchased with proceeds from Water Development Revenue Bonds was \$192,206,221. Management's intentions are to hold such bonds until maturity; therefore, management believes the face amount of the bonds is fully collectible.

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

7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 514,684	\$ -	\$ -	\$ 514,684
Capital assets, being depreciated:				
Furniture and equipment	6,243,693	254,990	72,149	6,426,534
Building	4,100,298	-	-	4,100,298
Total capital assets, being depreciated	<u>10,343,991</u>	<u>254,990</u>	<u>72,149</u>	<u>10,526,832</u>
Less accumulated depreciation for:				
Furniture and equipment	3,401,330	1,234,327	72,149	4,563,508
Building	300,755	102,508	-	403,263
Total accumulated depreciation	<u>3,702,085</u>	<u>1,336,835</u>	<u>72,149</u>	<u>4,966,771</u>
Total capital assets, net	<u>\$ 7,156,590</u>	<u>\$ (1,081,845)</u>	<u>\$ -</u>	<u>\$ 6,074,745</u>

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)**8 - REVENUE BONDS PAYABLE**

The following is a summary of the Authority's bond transactions for the year ended June 30, 2016:

Revenue bonds payable at June 30, 2015	\$ 199,795,000
Bonds retired during the year ended June 30, 2016	<u>(8,035,000)</u>

Revenue bonds payable at June 30, 2016	<u>\$ 191,760,000</u>
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Revenue and refunding bonds outstanding at June 30, 2016, were as follows:

<u>Series</u>	<u>Final Maturity</u>	<u>Interest Rates %</u>	<u>Balance</u>
2005 AIV	11/01/44	4.000-5.000	32,805,000
2005 AII	11/01/33	4.375-5.000	13,595,000
2005 BII	11/01/33	4.375-5.000	9,450,000
2005 BIV	11/01/44	4.750-5.125	9,785,000
2006 AII	11/01/39	4.000-5.000	33,210,000
2012 AI	11/01/25	2.000-3.000	2,845,000
2012 BI	11/01/26	3.000-4.500	13,140,000
2012 AII	11/01/23	2.000-3.000	4,510,000
2012 BII	11/01/33	2.000-4.000	12,995,000
2012 AIII	07/01/39	3.000-4.000	15,100,000
2012 BIII	07/01/40	2.000-3.750	9,175,000
2013 AII	11/01/29	2.000-5.000	<u>35,150,000</u>
			<u>\$ 191,760,000</u>

Loan Program I includes Series 2012 AI and 2012 BI Water Development Revenue Refunding Bonds. Loan Program II includes Series 2013 AII Water Development Revenue Refunding Bonds, and Series 2012 AII, 2012 BII, Series 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)**8 - REVENUE BONDS PAYABLE (Continued)**

Total future maturities of bond principal and interest on Authority indebtedness at June 30, 2016, are as follows:

Loan Program I

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/01/16	\$ 1,525,000	\$ 593,700	\$ 2,118,700
11/01/17	1,570,000	539,775	2,109,775
11/01/18	1,635,000	476,363	2,111,363
11/01/19	1,240,000	417,225	1,657,225
11/01/20	<u>1,295,000</u>	<u>362,475</u>	<u>1,657,475</u>
	<u>7,265,000</u>	<u>2,389,538</u>	<u>9,654,538</u>
11/01/21-11/01/25	7,270,000	1,000,438	8,270,438
11/01/26	<u>1,450,000</u>	<u>29,000</u>	<u>1,479,000</u>
	<u>8,720,000</u>	<u>1,029,438</u>	<u>9,749,438</u>
	<u>\$ 15,985,000</u>	<u>\$ 3,418,976</u>	<u>\$ 19,403,976</u>

Loan Program II

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/01/16	\$ 5,230,000	\$ 4,458,488	\$ 9,688,488
11/01/17	5,430,000	4,266,296	9,696,296
11/01/18	5,615,000	4,094,466	9,709,466
11/01/19	5,470,000	3,906,681	9,376,681
11/01/20	<u>5,610,000</u>	<u>3,689,609</u>	<u>9,299,609</u>
	<u>27,355,000</u>	<u>20,415,540</u>	<u>47,770,540</u>
11/01/21-11/01/25	30,005,000	14,784,238	44,789,238
11/01/26-11/01/30	29,585,000	8,250,850	37,835,850
11/01/31-11/01/35	14,640,000	3,235,188	17,875,188
11/01/36-11/01/39	<u>7,325,000</u>	<u>715,875</u>	<u>8,040,875</u>
	<u>81,555,000</u>	<u>26,986,151</u>	<u>108,541,151</u>
	<u>\$ 108,910,000</u>	<u>\$ 47,401,691</u>	<u>\$ 156,311,691</u>

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - REVENUE BONDS PAYABLE (Continued)

Loan Program III

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
07/01/16	\$ 655,000	\$ 842,931	\$ 1,497,931
07/01/17	675,000	823,406	1,498,406
07/01/18	700,000	799,756	1,499,756
07/01/19	720,000	773,981	1,493,981
07/01/20	<u>745,000</u>	<u>747,356</u>	<u>1,492,356</u>
	<u>3,495,000</u>	<u>3,987,430</u>	<u>7,482,430</u>
07/01/21-07/01/25	4,165,000	3,320,063	7,485,063
07/01/26-07/01/30	4,870,000	2,590,391	7,460,391
07/01/31-07/01/35	5,775,000	1,663,269	7,438,269
07/01/36-07/01/40	<u>5,970,000</u>	<u>507,000</u>	<u>6,477,000</u>
	<u>20,780,000</u>	<u>8,080,723</u>	<u>28,860,723</u>
	<u>\$ 24,275,000</u>	<u>\$ 12,068,153</u>	<u>\$ 36,343,153</u>

Loan Program IV

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/01/15	\$ 895,000	\$ 2,072,881	\$ 2,967,881
11/01/16	935,000	2,029,781	2,964,781
11/01/17	980,000	1,981,509	2,961,509
11/01/18	1,030,000	1,930,844	2,960,844
11/01/19	<u>1,080,000</u>	<u>1,879,222</u>	<u>2,959,222</u>
	<u>4,920,000</u>	<u>9,894,237</u>	<u>14,814,237</u>
11/01/20-11/01/24	6,210,000	8,557,900	14,767,900
11/01/25-11/01/29	7,010,000	6,973,006	13,983,006
11/01/30-11/01/34	8,910,000	5,025,600	13,935,600
11/01/35-11/01/39	7,785,000	2,952,825	10,737,825
11/01/40-11/01/44	<u>7,755,000</u>	<u>800,431</u>	<u>8,555,431</u>
	<u>37,670,000</u>	<u>24,309,762</u>	<u>61,979,762</u>
	<u>\$ 42,590,000</u>	<u>\$ 34,203,999</u>	<u>\$ 76,793,999</u>
Total all loan programs	\$ 191,760,000		
Add: unamortized net premium	<u>6,741,557</u>		
Total all programs, net	198,501,557		
Less: current portion	<u>8,807,262</u>		
Noncurrent portion	<u>\$ 189,694,295</u>		

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)**8 - 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, 2016, there are \$2,080,000 in defeased bonds outstanding.

The proceeds from the Authority's Revenue Bond Program provide financial assistance to municipalities, public service districts and other public subdivisions to meet the requirements of state and federal water pollution control and safe drinking water laws. All bonds are considered a moral obligation of the state of West Virginia. All assets of the Authority except capital assets have been pledged to fulfill the commitments of the bonds over the life of the debt. Principal and interest paid on bonds payable for the year ended June 30, 2016 was \$8,034,993 and \$8,250,939 respectively and principal payments and interest received on pledged notes receivable were \$7,568,374 and \$13,167,421, respectively, at June 30, 2016.

9 - PENSION PLAN*Plan Description*

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

Benefits Provided

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

Contributions

Although contributions are not actuarially determined, actuarial valuations are performed to assist the Legislature in establishing appropriate contribution rates. Members hired prior to July 1 2015 contribute 4.5% of annual earnings. All members hired July 1, 2015 and later contribute 6% of annual earnings. Current funding policy requires employer contributions of 13.5%, 14.0%, and 14.5% for the years ended June 30, 2016, 2015, and 2014, respectively.

During the years ended June 30, 2016, 2015, and 2014, the Authority's contributions to PERS required and made were approximately \$74,720, \$81,986, and \$72,599, respectively.

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)**9 - PENSION PLAN (Continued)***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2016, the Authority reported a liability of \$241,080 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2016 was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014, rolled forward to the measurement date of June 30, 2015. The Authority's proportion of the net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all employers participating in PERS for the year ended June 30, 2015. At June 30, 2015, the Authority's proportion was 0.043182 percent, which was an increase of 0.002237 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Authority recognized pension expense of \$33,426. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 73,546	\$ 126,417
Changes in assumptions	-	28,998
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	16,103	-
Differences between expected and actual experience	49,307	-
The Authority's contributions made subsequent to the measurement date of June 30, 2014	<u>74,720</u>	<u>-</u>
Total	<u>\$ 213,676</u>	<u>\$ 155,415</u>

The amount of \$74,720 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,

2017	\$ (11,225)
2018	(11,225)
2019	(12,397)
2020	18,388

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)**9 - PENSION PLAN (Continued)***Actuarial Assumptions*

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	1.9 percent
Salary increases	3.0 - 6.0 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense

Mortality rates were based on 110% of the RP-2000 Non-Annuitant, Scale AA for healthy males, 101% of RP-2000 Non-Annuitant Scale AA for healthy females, 96% of RP-2000 Disabled Annuitant, Scale AA for disabled males, and 107% of RP-2000 Disabled Annuitant, Scale AA for disabled females.

An experience study, which was based on the years 2009 through 2014, was completed prior to the 2015 actuarial valuation. As a result, several assumptions were changed for the actuarial valuation for the year ending June 30, 2015 as follows:

	2015	2014
Projected salary increases:		
State	3.0-4.6%	4.25-6.0%
Nonstate	3.35-6.0%	4.25-6.0%
Inflation rate	1.9%	2.2%
Mortality rates	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA Healthy females - 101% of RP-2000 Non-Annuitant, Scale AA Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA Disabled females - 107% of RP-2000 Disabled Annuitant, Scale AA	Healthy males - 1983 GAM Healthy females - 1971 GAM Disabled males - 1971 GAM Disabled females - Revenue ruling 96-7
Withdrawal rates		
State	1.75-35.1%	1 - 26%
Non-state	2-35.8%	2 - 31.2%
Disability rates	0 - .675%	0 - .8%

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

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	15.0%	2.9 - 4.8%
Domestic equity	27.5%	7.6%
International equity	27.5%	8.5%
Real estate	10.0%	6.8%
Private equity	10.0%	9.9%
Hedge funds	<u>10.0%</u>	5.0%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will continue to be made at statutorily required rates, which are determined annually based on actuarial valuations. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

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

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

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Authority's proportionate share of the net pension liability (asset)	\$ 556,114	\$ 241,080	\$ (24,980)

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)**10 - OTHER POSTEMPLOYMENT BENEFITS**Plan Description

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

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

Funding Policy

The Code requires that the OPEB Plan bill the participating employers 100% of the annual required contribution (ARC), an amount actuarially determined in accordance with 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, 2016, 2015, and 2014 were \$532, \$154, and \$0, respectively, and the billed ARC's were \$19,152, \$16,446, and \$6,768. The Authority's contributions represent 2.8%, 0.9%, and 0% of the ARC for the years then ended, respectively. These amounts were transferred to the OPEB Plan which resulted in accrued employee benefits of \$217,174 and \$198,554, respectively, which are included in the Authority's liabilities as of June 30, 2016 and 2015.

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)**11 - GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the year ended June 30, 2016, are as follows:

Personal services	\$ 559,488
Legal	96,349
Professional	406,979
Trustee	46,255
Employee benefits	65,575
Public employees insurance	47,176
Office supplies/printing	54,293
Advertising	4,916
Repairs and maintenance	68,950
Travel	25,048
Utilities	30,124
Telecommunications	46,003
Vehicle	695
Payroll taxes	8,470
Computer supplies/services	147,398
Janitorial	30,000
Miscellaneous	10,562
Rental	12,820
Administrative	2,343
Insurance	4,531
Training and development	<u>16,920</u>
	<u>\$ 1,684,895</u>

12 - RISK MANAGEMENT

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

The Authority has obtained coverage for job-related injuries of employees and health coverage for its employees from a commercial insurance provider and the WVPEIA, respectively. 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, 2016.

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)**13 - NEW ACCOUNTING PRONOUNCEMENTS**

The Governmental Accounting Standards Board (GASB) has issued four statements relating to accounting and financial reporting for pension and postemployment benefit plans: Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not with the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; and Statement No. 82, *Pension Issues and amendment of GASB Statements No. 67, No. 68, and No. 73*. The Provisions of Statements No. 73 and 74 are effective for financial statements for periods beginning after June 15, 2016, and the provisions of Statement No. 75 are effective for periods beginning after June 15, 2017. The provisions of Statement No. 82 are effective for periods beginning June 15, 2016 and certain requirements of the statement are effective for the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The Authority's management has not determined the effect, if any, these statements will have on its financial statements.

14 - COMMITMENT

On October 15, 2015, the Authority's Board of Directors authorized the current refunding of the 2005 Series A-II bonds in the amount of \$13,345,000, the 2005 Series B-II bonds in the amount of \$9,100,000, and the 2006 Series A-II bonds in the amount of \$32,290,000 through issuance of the 2016 Series A-II bonds. On that date the Board also authorized the current refunding of the 2005 Series A-IV bonds in the amount of \$32,200,000 and the 2005 Series B-IV bonds in the amount of \$9,495,000 through issuance of the 2016 Series A-IV bonds. Due to unforeseen circumstances that refunding was delayed until December 2016.

15 - UNCERTAINTY

The Authority is currently cooperating with a State of West Virginia legislative oversight commission request for information related to certain administrative expenses for the period July 1, 2011 to the present. This inquiry process is ongoing and no information regarding the status of this matter has been communicated to management. Consequently, management cannot determine the effect, if any, of this inquiry on the Authority's financial position. Although an amount cannot presently be estimated, due to the uncertainty with regard to this matter, it is at least reasonably possible that an effect on the Authority's financial position could occur in the near term.

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 2013 All Water Development Revenue Refunding Bonds, 2012 AII, 2012 BII, 2005 AII, 2005 BII and 2006 All 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	\$ 2,465,425	\$ 6,972,950	\$ 598,378
Noncurrent - unrestricted	-	-	-
Restricted - current and noncurrent	18,056,237	113,310,931	27,264,742
Capital assets, net	-	-	-
Total assets	<u>\$ 20,521,662</u>	<u>\$ 120,283,881</u>	<u>\$ 27,863,120</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred outflows of resources related to pension	-	-	-
Deferred loss on bond refundings	\$ 2,607,707	\$ 6,710,878	\$ 358,707
Total deferred outflows	<u>\$ 2,607,707</u>	<u>\$ 6,710,878</u>	<u>\$ 358,707</u>
<u>LIABILITIES</u>			
Current	\$ 1,811,854	\$ 6,266,138	\$ 1,091,738
Long-term	16,158,653	107,131,925	23,862,330
Total liabilities	<u>\$ 17,970,507</u>	<u>\$ 113,398,063</u>	<u>\$ 24,954,068</u>
<u>DEFERRED INFLOWS</u>			
Deferred inflows of resources related to pension	\$ -	\$ -	\$ -
<u>NET POSITION</u>			
Restricted	\$ 4,505,291	\$ 12,889,884	\$ 3,761,119
Unrestricted	653,571	706,812	(493,360)
Investment in capital assets	-	-	-
Total net position	<u>\$ 5,158,862</u>	<u>\$ 13,596,696</u>	<u>\$ 3,267,759</u>
<u>OPERATING REVENUE</u>			
Charges for services and miscellaneous revenue	\$ 1,495,140	\$ 7,378,689	\$ 1,540,838
<u>OPERATING EXPENSES</u>			
Depreciation and amortization	-	11,961	-
General and administrative	-	-	-
Allocation of general and administrative	139,043	863,502	192,797
<u>OPERATING INCOME</u>	1,356,097	6,503,226	1,348,041
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Interest and investment revenue	1,534	60,865	2,437
Interest expense	(700,536)	(4,734,534)	(855,813)
Transfers (net)	137,107	(694,551)	192,798
Change in net position	794,202	1,135,006	687,463
Beginning net position	4,364,660	12,461,690	2,580,296
Ending net position	<u>\$ 5,158,862</u>	<u>\$ 13,596,696</u>	<u>\$ 3,267,759</u>
Net cash provided by (used in):			
Operating activities	\$ 2,117,741	\$ 9,455,876	\$ 1,970,974
Capital and related financing activities	-	-	-
Noncapital financing activities	(2,118,776)	(9,702,744)	(1,494,806)
Investing activities	1,280	882,763	1,900
Beginning cash and cash equivalents	2,146,525	6,686,879	4,108,548
Ending cash and cash equivalents	<u>\$ 2,146,770</u>	<u>\$ 7,322,774</u>	<u>\$ 4,586,616</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	\$ 1,599,549	\$ 18,299,244	\$ 29,935,546
Noncurrent - unrestricted	-	11,908,331	11,908,331
Restricted - current and noncurrent	42,640,932	5,369,650	206,642,492
Capital assets - net	-	6,074,745	6,074,745
Total assets	\$ 44,240,481	\$ 41,651,970	\$ 254,561,114
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred outflows of resources related to pension	\$ -	\$ 213,676	\$ 213,676
Deferred loss on bond refundings	-	-	9,677,292
Total deferred outflows	\$ -	\$ 213,676	\$ 9,890,968
 <u>LIABILITIES</u>			
Current	\$ 1,274,700	\$ 102,623	\$ 10,547,053
Long-term	42,541,380	515,610	190,209,898
Total liabilities	\$ 43,816,080	\$ 618,233	\$ 200,756,951
 <u>DEFERRED INFLOWS</u>			
Deferred inflows of resources related to pension	\$ -	\$ 155,415	\$ 155,415
 <u>NET POSITION</u>			
Restricted	\$ 99,552	\$ 4,912,301	\$ 26,168,147
Unrestricted	324,849	30,104,952	31,296,824
Investment in capital assets	-	6,074,745	6,074,745
Total net position	\$ 424,401	\$ 41,091,998	\$ 63,539,716
 <u>OPERATING REVENUE</u>			
Charges for services and miscellaneous revenue	\$ 2,221,574	\$ 658,172	\$ 13,294,413
 <u>OPERATING EXPENSES</u>			
Depreciation and amortization	8,314	1,336,835	1,357,110
General and administrative	-	1,684,895	1,684,895
Allocation of general and administrative	347,403	(1,542,745)	-
OPERATING INCOME	1,865,857	(820,813)	10,252,408
 <u>NONOPERATING REVENUES (EXPENSES):</u>			
Interest and investment revenue	144	156,150	221,130
Interest expense	(2,072,915)	-	(8,363,798)
Transfers (net)	347,180	17,466	-
Change in net position	140,266	(647,197)	2,109,740
Beginning net position	284,135	41,739,195	61,429,976
Ending net position	\$ 424,401	\$ 41,091,998	\$ 63,539,716
 Net cash provided by (used in):			
Operating activities	\$ 2,969,478	\$ 2,385,418	\$ 18,899,487
Capital and related financing activities	-	(254,994)	(254,994)
Noncapital financing activities	(2,969,606)	-	(16,285,932)
Investing activities	144	128,209	1,014,296
Beginning cash and cash equivalents	54,510	16,052,106	29,048,568
Ending cash and cash equivalents	\$ 54,526	\$ 18,310,739	\$ 32,421,425

REQUIRED SUPPLEMENTARY INFORMATION

THE WEST VIRGINIA WATER DEVELOPMENT AUTHORITY
 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 Public Employees Retirement System Plan

	<u>Year Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Authority's proportion (percentage) of the net pension liability	0.043182%	0.040945%
Authority's proportionate share of the net pension liability	\$ 241,080	\$ 151,290
Authority's covered employee payroll	\$ 587,420	\$ 507,753
Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll	41.040%	29.796%
Plan fiduciary net position as a percentage of the total pension liability	91.29%	93.98%

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

THE WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

SCHEDULE OF CONTRIBUTIONS TO THE PERS

	Year Ended June 30,			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 74,720	\$ 81,986	\$ 72,599	\$ 62,525
Contributions in relation to the statutorily required contribution	\$ (74,720)	\$ (81,986)	\$ (72,599)	\$ (62,525)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Authority's covered employee payroll	\$ 553,481	\$ 587,420	\$ 507,753	\$ 463,946
Contributions as a percentage of covered-employee payroll	13.50%	14.00%	14.30%	13.48%

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

1 - TREND INFORMATION PRESENTED

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

2 - PLAN AMENDMENT

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

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

3 - CHANGES IN ASSUMPTIONS

An experience study, which was based on the years 2009 through 2014, was completed prior to the 2015 actuarial valuation. As a result, several assumptions were changed for the actuarial valuation for the year ending June 30, 2015 as follows:

	2015	2014
Projected salary increases:		
State	3.0-4.6%	4.25-6.0%
Nonstate	3.35-6.0%	4.25-6.0%
inflation rate	1.9%	2.2%
Mortality rates	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA Healthy females - 101% of RP-2000 Non-Annuitant, Scale AA Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA Disabled females - 107% of RP-2000 Disabled Annuitant, Scale AA	Healthy males - 1983 GAM Healthy females - 1971 GAM Disabled males - 1971 GAM Disabled females - Revenue ruling 96-7
Withdrawal rates		
State	1.75-35.1%	1 - 26%
Non-state	2-35.8%	2 - 31.2%
Disability rates	0 - .675%	0 - .8%



WEST VIRGINIA
Water Development Authority
Celebrating 42 Years of Service 1974 - 2016

APPENDIX C
WEST VIRGINIA DRINKING
WATER TREATMENT
REVOLVING FUND

FINANCIAL STATEMENTS
WITH INDEPENDENT
AUDITORS' REPORT

**Audited Financial Statements
with Other Financial Information**

West Virginia Drinking Water Treatment Revolving Fund

Year Ended June 30, 2016

Audited Financial Statements
With Other Financial Information

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

Year Ended June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia Drinking Water Treatment Revolving Fund (the Fund), as of and for the year ended June 30, 2016, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2016, 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.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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 on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards on page 19 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The accompanying information and the schedule of expenditures of federal awards are the responsibility of management and were 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 and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2016 on our consideration of the Fund'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 the Fund's internal control over financial reporting and compliance.

Charleston, West Virginia
October 18, 2016

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, 2016. Please read it in conjunction with the Fund's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

- Under the former American Recovery and Reinvestment Act (ARRA), the Drinking Water Treatment Revolving Fund was awarded \$19.5 million, of which \$19.25 million was to be distributed through the drinking water revolving loan program. Under the ARRA program at least 50% of the \$19,250,000 was required to be provided in the form of principal forgiveness loans (an approved loan type whereby the loan recipient is not required to repay the loan). The Fund closed fourteen (14) projects receiving ARRA funding over the life of the program. \$18.95 million of the \$19.25 million was provided in the form of principal forgiveness loans. The ARRA principal forgiveness loans are written off quarterly according to their respective debt service schedules. A total of \$1.895 million in ARRA principal forgiveness loans were written off against the existing allowance for principal forgiveness during fiscal year 2016.
- 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 or on the last day of the month in which the last disbursement is made. 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 \$1.723 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 \$8,114,250 or about 6%. This is largely due to an increase in the volume of loans issued and funds disbursed during the fiscal year. The Fund's liabilities increased \$11,709. This is the largely the result of an increase in legal fees related to project review. The Fund's net position increased by \$8,102,541 or approximately 6%.
- The Fund's revenues increased by \$66,280 or approximately 5%. This is primarily due to an increase in administrative fees of \$35,793, as well as an increase in investment earnings of \$48,274, offset by a decrease in interest on loans of \$17,787. The overall increase in revenues is due to an increase in loans closed over the past five plus years.
- 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 \$889,374 from the prior year.
- Twelve (12) 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, four (4) of which are substantially complete but still have a remaining loan balance.

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 \$8,114,250 or about 6%. The Fund has \$25,515 in liabilities as of the current fiscal year and \$13,806 in liabilities in the prior fiscal year ended June 30. The increase in assets approximates the increase in the Fund's net position. Our analysis that follows focuses on the net position (Table 1) and changes in net position (Table 2) of the Fund's activities.

Table 1
Statements of Net Position

	<u>2016</u>	<u>2015</u>
Assets		
Current assets	\$ 31,476,629	\$ 32,223,237
Loans receivable, less current maturities, net	<u>123,356,583</u>	<u>114,495,725</u>
Total assets	<u>\$ 154,833,212</u>	<u>\$ 146,718,962</u>
Liabilities		
Current liabilities	<u>\$ 25,515</u>	<u>\$ 13,806</u>
Net position		
Restricted	<u>\$ 154,807,697</u>	<u>\$ 146,705,156</u>

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

	<u>2016</u>	<u>2015</u>
Revenues:		
Operating revenues:		
Administrative fees	\$ 634,773	\$ 598,980
Interest on loans	<u>709,007</u>	<u>726,794</u>
Total operating revenues	1,343,780	1,325,774
Investment earnings	<u>75,506</u>	<u>27,232</u>
Total revenues	1,419,286	1,353,006
Operating expenses	<u>(1,800,962)</u>	<u>(2,784,305)</u>
Loss before capital grants and contributions	<u>(381,676)</u>	<u>(1,431,299)</u>
Capital grants and contributions	<u>8,484,217</u>	<u>9,373,591</u>
Increase in net position	<u>8,102,541</u>	<u>7,942,292</u>

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

Most of the increase in the Fund's assets and net position is attributable to both the capital grants and contributions received in the current year from the EPA in the amount of \$6,726,817 and the State match through the West Virginia Infrastructure and Jobs Development Council in the amount of \$1,757,400 totaling \$8,484,217. Of the \$6,726,817 received from the EPA in the current year, \$525,205 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." In addition, \$1,890,834 in cumulative investment earnings on current and previous State match amounts have been committed to drinking water infrastructure projects but have not yet been expended. These moneys are invested with the West Virginia Board of Treasury Investments and are included on the balance sheet as "Cash Equivalents."

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

Capital grant income from the EPA is recognized after the Fund has reviewed and approved supporting invoices for disbursements of loan proceeds to local governmental agencies and the federal portion of those disbursements has been received by the Fund. Capital grant income from the EPA decreased \$877,774 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 \$363,943 from prior year. Twelve (12) loans closed during the current year, totaling \$19,185,650. Seven (7) loans closed in the first quarter, one (1) closed in the second quarter, one (1) closed in the third quarter, and three (3) closed in the fourth quarter.

Total revenues, including operating revenues and investment earnings totaled \$1,419,286. This was an increase of \$66,280 from prior year. This was attributed to an increase in administrative fees of \$35,793 over the prior year, an increase in investment earnings of \$48,274, and offset by a decrease in interest on loans of \$17,787.

The twelve loans that closed in the current year totaled \$19,185,650. The amounts disbursed for these loans totaled \$9,366,737 of which \$3,389,151 represented federal funds with \$147,514 of those funds having principal forgiveness features and \$903,775 represented state match, with \$39,337 of those funds having principal forgiveness features. \$5,073,811 represented proceeds from loan repayments with \$777,300 of those funds having principal forgiveness features. The amount disbursed during the current year for loans closed in prior years totaled \$7,398,757 of which \$3,337,666 represented federal funds with \$377,691 of those funds having principal forgiveness features, \$890,106 represented State match with \$100,102 of those funds having principal forgiveness features, and \$3,170,985 represented proceeds from loan repayments with \$280,971 having principal forgiveness features. The sum of all disbursements for the years ended June 30, 2016 and 2015 was \$16,765,494 and \$12,519,317, respectively.

COMMITMENTS AND EPA GRANT APPLICATION

As of June 30, 2016, the Fund had outstanding binding commitments to loan to qualified recipients of \$12.2 million, and all of the 2015 EPA Capitalization Grant funds were disbursed. On June 27, 2016, the 2016 EPA Capitalization Grant was received and will be disbursed in fiscal year 2017 for approved drinking water infrastructure projects. Funding for approved projects will also come from resources currently available to the

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

COMMITMENTS AND EPA GRANT APPLICATION (Continued)

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, 2016 the Fund has \$22,490,419 in cash equivalents available for these projects. Additionally, the Fund has \$371,687 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.

The West Virginia Bureau for Public Health submitted an application to the EPA for a grant for the Fund for the fiscal year 2017 grant period. The application was approved in June 2016, and resulted in an award from the EPA of \$5,749,000. The \$1,662,400 State match has been committed to the Fund in order to secure the federal funds. The total of \$7,411,400, awarded to the Fund, will be used to provide no-interest or low-interest traditional or principal forgiveness featured loans to assist in financing approved drinking water infrastructure projects, including projects approved as of June 30, 2016, as noted above.

The 2015 EPA Capitalization Grant awarded for fiscal year 2016 contained 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 2016 EPA Capitalization Grant for fiscal year 2017 contains 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.wwwda.org).

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

STATEMENT OF NET POSITION

June 30, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$ 22,862,106
Administrative fees receivable	53,415
Accrued interest receivable	63,318
Current maturities of loans receivable	<u>8,497,790</u>
Total current assets	31,476,629

Loans receivable, less current maturities (net of principal forgiveness of \$13,949,273)	<u>123,356,583</u>
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Total assets	<u>\$ 154,833,212</u>
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LIABILITIES

Current liabilities:

Accounts payable, related party	<u>\$ 25,515</u>
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NET POSITION

Net position, restricted	<u>\$ 154,807,697</u>
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The accompanying notes are an integral part of these financial statements.

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

Year Ended June 30, 2016

Operating revenues:		
Administrative fees	\$	634,773
Interest on loans		<u>709,007</u>
		<u>1,343,780</u>
Operating expense:		
Administrative expense		78,047
Grant expense - principal forgiveness		<u>1,722,915</u>
		<u>1,800,962</u>
Operating loss		(457,182)
Nonoperating revenues:		
Investment income		<u>75,506</u>
Loss before capital grants and contributions		<u>(381,676)</u>
Capital grants and contributions:		
U.S. Environmental Protection Agency		6,726,817
State of West Virginia		<u>1,757,400</u>
		<u>8,484,217</u>
Increase in net position		8,102,541
Net position, beginning of year		<u>146,705,156</u>
Net position, end of year	\$	<u>154,807,697</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, 2016

Operating activities:	
Cash payments for:	
Loans originated	\$ (16,765,494)
Administrative expenses	(66,338)
Cash receipts from:	
Principal repayments	5,886,321
Administrative fees	631,982
Interest on loans	<u>706,216</u>
Net cash and cash equivalents used in operating activities	<u>(9,607,313)</u>
Capital and related financing activities:	
Capital grants and contributions received:	
U.S. Environmental Protection Agency	6,726,817
State of West Virginia, Infrastructure and Jobs Development Council	<u>1,757,400</u>
Net cash provided by capital and related financing activities	<u>8,484,217</u>
Investing activities:	
Investment income	<u>75,506</u>
Net decrease in cash and cash equivalents	(1,047,590)
Cash and cash equivalents, beginning of year	<u>23,909,696</u>
Cash and cash equivalents, end of year	<u>\$ 22,862,106</u>
Reconciliation of operating loss to net cash and cash equivalents used in operating activities:	
Operating loss	\$ (457,182)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities:	
Increase in loans receivable	(9,156,258)
Increase in administrative fees receivable	(2,791)
Increase in accrued interest receivable	(2,791)
Increase in accounts payable, related party	<u>11,709</u>
Net cash and cash equivalents used in operating activities	<u>\$ (9,607,313)</u>
Supplemental disclosure of noncash activities:	
New loans originated with principal forgiveness features and forgiven in current year	<u>\$ 1,722,915</u>

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

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF THE FUND

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

The Fund has received capital grants and contributions from the United States Environmental Protection Agency (the "EPA"), and the State, which is required to provide an additional twenty percent of the federal award as matching funds in order to qualify for funding. As of June 30, 2016, Congress has authorized the EPA to award \$185,703,782 in capitalization grants to the State, of which \$146,364,433 is allocated to the fund. The state is required to contribute \$33,227,157 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 in West Virginia Board of Treasury Investments ("BTI") amortized cost pools. The State Treasurer deposits cash with the BTI at the direction of the Authority, and deposits are not separately identifiable as to specific types of securities. Such funds are available to the Fund daily.

Loans Receivable

The State operates the Fund as a perpetual revolving loan program, whereby loans made to local governmental agencies or other eligible water providers are funded by a federal capitalization grant, including amounts awarded under the former American Recovery and Reinvestment Act of 2009 (ARRA), and the State matching amount and/or repayments from existing loans. Loan funds are disbursed to the local governmental agencies or other eligible water providers as costs are incurred on approved projects. Interest, if applicable, is not paid during construction but begins accruing three months before the date that local governmental agencies or other eligible water providers begin repayment; and the payment schedule is adjusted for actual amounts disbursed and interest accrued on those disbursements. The loans are secured by a lien on the revenues of the local governmental agencies' or other eligible water providers' water systems and by debt service reserve funds held by the West Virginia Municipal Bond Commission. According to the terms as set forth in the ARRA, management believes that it is probable that certain of the local government agencies will fulfill specific ARRA program requirements allowing for principal forgiveness, and as such a 100% principal forgiveness valuation has been made for certain of these program loans through the year ended June 30, 2016.

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 30th day of June in the fiscal year coinciding with the disbursement. These loans, which are secured by principal only bonds issued by the loan recipient, and held in the name of the 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, 2016, with the exception of forgivable loans, no provision for uncollectible accounts has been made because management believes that the loans will be repaid according to the loan terms. There are no principal or interest payments in default.

Administrative Fees

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

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

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

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

Net Position

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

Operating Revenues and Expenses

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

3 - CASH AND CASH EQUIVALENTS

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

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

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

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

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated A+ 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+	\$ 290,118	18.65 %
Corporate bonds and notes	P-1	A-1	632,773	40.68
	Aa1	AA-	23,014	1.48
	Aa3	AA-	15,000	0.96
	A2	A	11,268	0.72
U.S. agency bonds	Aaa	AA+	9,499	0.61
U.S. Treasury notes*	Aaa	AA+	231,398	14.88
U.S. Treasury bills*	P-1	A-1+	19,982	1.28
Negotiable certificates of deposit	Aa2	AA-	3,000	0.19
	Aa3	AA-	6,000	0.39
	P-1	A-1+	78,006	5.02
	P-1	A-1	121,001	7.78
Money market funds	Aaa	AAAm	72,370	4.65
Repurchase agreements (underlying securities):				
U.S. treasury notes*	Aaa	AA+	42,100	2.71
			<u>\$ 1,555,529</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 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.

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 carrying 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	\$ 42,100	1
U.S. treasury notes	231,398	88
U.S. treasury bills	19,982	91
Commercial paper	922,891	48
Certificates of deposit	208,007	40
Corporate bonds and notes	49,282	14
U.S. agency bonds and notes	9,499	24
Money market funds	<u>72,370</u>	1
	<u>\$ 1,555,529</u>	49

Foreign Currency risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the carrying 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, 2016, 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 \$1,722,915 in loans whose principal was forgiven during the year ended June 2016 in accordance with funding covenants provided by the EPA. Accordingly a valuation account for expected principal forgiveness has been recorded as of June 30, 2016 for the total allotment of anticipated qualifying principal forgiveness loans. During the year, the Fund disbursed \$15,042,579 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, 2016:

Loans without principal forgiveness features	\$ 131,854,373
ARRA loans	9,736,435
EPA principal forgiveness loans (original principal of \$13,382,351)	<u>4,212,838</u>
Total loans outstanding	145,803,646
Less:	
Allowance for principal forgiveness programs	13,949,273
Current maturities	<u>8,497,790</u>
 Total loans receivable, net of current maturities and principal forgiveness	 <u>\$ 123,356,583</u>

Non-principal forgiveness loans mature at various intervals through June 2048, ARRA and EPA principal forgiveness loans will be forgiven over various periods through June 2049. The scheduled principal payments on principal forgiveness loans maturing in subsequent years and annual principal forgiveness in future years are as follows at June 30:

2017	\$ 8,497,790
2018	9,051,370
2019	9,211,068
2020	9,264,935
2021	9,043,146
Thereafter	<u>113,076,212</u>
	158,144,521
Less loans closed but not disbursed at June 30, 2016	<u>12,340,875</u>
	145,803,646
Less current maturities	<u>8,497,790</u>
	137,305,856
Less allowance for principal forgiveness programs	<u>13,949,273</u>
 Total loans receivable, net of current maturities and principal forgiveness	 <u>\$ 123,356,583</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, 2016, 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>
9/11/1998	\$ 9,076,449	\$ 2,511,760
6/11/1999	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
6/16/2005	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
6/15/2009*	15,350,000	-
8/03/2009*	3,900,000	-
10/01/2009	5,620,740	1,629,200
7/29/2010	7,345,036	1,629,200
9/22/2010	9,466,950	2,714,600
9/15/2011	6,394,920	1,853,600
1/20/2012*	150,000	-
9/20/2012	6,224,032	1,831,257
7/1/2013	5,810,490	1,684,200
7/1/2014	6,701,750	1,769,000
7/1/2015	6,590,250	1,757,400
6/27/2016**	5,749,000	-
Total	<u>\$ 146,364,433</u>	<u>\$ 33,227,157</u>

*Funds did not require a State match.

**State match not transferred until July 12, 2016

The following represents the amounts of EPA grants and State matching funds received by the Fund through June 30, 2016:

<u>Cumulative Through</u>	<u>Federal</u>	<u>State</u>	<u>Total Capital Grants and Contributions</u>
June 30, 2016	<u>\$ 140,615,433</u>	<u>\$ 33,227,157</u>	<u>\$ 173,842,590</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, 2016:

<u>Local Governmental Agency</u>	<u>Commitment Date</u>	<u>Amount Committed by the Fund</u>
Weirton Water Board	4/25/2016	\$ 4,000,000
River Road PSD	1/25/2016	2,546,000
Lubeck PSD	5/16/2016	3,680,367
Preston County PSD #4	4/25/2016	<u>1,932,071</u>
Total		<u>\$ 12,158,438</u>

In addition, the Fund has awarded amounts not yet disbursed of approximately \$12,340,875 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, 2016.

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. WVAWC ceased paying a user fee in April 2014. The Drinking Water Treatment Revolving Fund is currently awaiting a hearing at the Public Service Commission to determine whether the user fee should be paid. A receivable has not been recorded since it cannot be determined whether the fee will be paid.

9 - TRANSACTIONS WITH STATE OF WEST VIRGINIA AGENCIES

The Authority pays for and is reimbursed for certain administrative expenses (including salaries and legal expenses) on behalf of the Fund. As of June 30, 2016, the Fund had incurred and recognized \$78,047 in administrative expenses of which \$25,515 remained payable to the Authority at June 30, 2016.

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

SCHEDULES OF ADMINISTRATIVE FEES ACTIVITY

As of and for the Year ended June 30, 2016

Schedule of assets and fund net position

Assets:

Cash and cash equivalents	\$ 4,631,668
Administrative fees receivable	<u>53,415</u>
Total assets	<u>\$ 4,685,083</u>

Liabilities:

Accounts payable, related party	<u>\$ 25,515</u>
Restricted fund net position	<u>\$ 4,659,568</u>

Schedule of administrative fees activity and fund net position

Revenues:

Administrative fees	\$ 634,773
Interest on investments	<u>13,690</u>
Total revenues	648,463

Expenses:

Administrative expense	<u>78,047</u>
Net income	570,416
Restricted fund net position - administrative fees, beginning of year	<u>4,089,152</u>
Restricted fund net position - administrative fees, end of year	<u>\$ 4,659,568</u>

Schedule of cash flows

Net income	\$ 570,416
Adjustments to reconcile net income to net cash provided by administrative fees activity:	
Increase in administrative fees receivable	(2,791)
Increase in accounts payable, related party	<u>11,709</u>
Net cash provided by administrative fees activity	579,334
Cash and cash equivalents, beginning of year	<u>4,052,334</u>
Cash and cash equivalents, end of year	<u>\$ 4,631,668</u>

See Independent Auditor's Report

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

<u>U.S. Environmental Protection Agency</u>	<u>CFDA #</u>	<u>Expenditures</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ <u>6,726,817</u> ¹

¹ This amount was passed through to non federal entities under a loan program.

1 - BASIS OF PRESENTATION

The above schedule of expenditures of federal awards includes the federal award activity of the West Virginia Drinking Water Treatment Revolving Loan Fund (the Fund) under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the Fund, it is not intended to and does not present the financial position, changes in fund net position or cash flows of the Fund.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3 - INDIRECT COST RATE

The Fund has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

See Independent Auditor's Report.

**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 West Virginia Bureau for Public Health and
the 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 Drinking Water Treatment Revolving Fund (the Fund), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated October 18, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 Fund'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 18, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the West Virginia Drinking Water Treatment Revolving Fund 's (the Fund) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Fund's major federal program for the year ended June 30, 2016. The Fund's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Fund's major federal 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 a major federal 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 each major federal program. However, our audit does not provide a legal determination of the Fund's compliance.

Opinion on Each Major Federal Program

In our opinion, the Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gibbons & Kawash, A.C.

Charleston, West Virginia
October 18, 2016

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? _____ Yes X No

Identification of major programs:

CFDA Number

66.468

Name of Federal Program or Cluster

Capitalization Grants for Drinking Water State Revolving Funds



WEST VIRGINIA
Water Development Authority
Celebrating 42 Years of Service 1974 - 2016

APPENDIX D
WEST VIRGINIA
INFRASTRUCTURE AND
JOBS DEVELOPMENT
COUNCIL

FINANCIAL STATEMENTS
WITH INDEPENDENT
AUDITORS' REPORT

Audited Financial Statements

West Virginia Infrastructure and Jobs Development Council

Year Ended June 30, 2016

Audited Financial Statements
WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL
Year Ended June 30, 2016

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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), as of and for the year ended June 30, 2016, 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. 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, 2016, 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.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Council, and do not purport to, and do not present fairly the financial position of the State of West Virginia as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 and the schedule of the proportionate share of the net pension liability and the schedule of contributions to the PERS on pages 39 through 41 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.

Charleston, West Virginia
October 25, 2016

**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, 2016. 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 net position and activities of the Council as a whole. The Governmental Fund's Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance report the Council's governmental fund balance and the respective changes in it. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund present the proprietary fund net position and the respective changes in net position. The Council's net position and the Council's fund balance 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 decreased \$33.1 million from \$835.7 million to \$802.6 million
- Deferred outflows of resources decreased \$51 thousand from \$2.3 million to \$2.2 million
- Total liabilities decreased \$7 million from \$201 million to \$194 million
- Deferred inflows of resources decreased \$2 thousand from the previous year
- Net position decreased \$27 million from \$637 million to \$610 million

Governmental Activities:

- Total assets decreased \$1 million from \$1,068 thousand to \$45 thousand
- Deferred outflows of resources decreased \$811 thousand from \$9.2 million to \$8.4 million
- Total liabilities decreased \$14 million from \$217 million to \$203 million
- The deficiency in net position decreased \$13 million from (\$207) million to (\$194) million

Government Wide:

- Total assets decreased \$34 million from \$837 million to \$803 million
- Deferred outflows of resources decreased \$862 thousand from \$11.5 million to \$10.6 million
- Total liabilities decreased \$21 million from \$418 million to \$397 million
- Deferred inflows of resources decreased \$2 thousand from the prior year
- Net position decreased by \$14 million from \$430 million to \$416 million

Other Highlights:

- 14 water and waste water project and economic development loans were closed for the year ended June 30, 2016 on behalf of the Council
- 20 water and wastewater grants were closed for the year ended June 30, 2016 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**

	2016	2016	2015	2015
	Business Type Activities	Governmental Type Activities	Business Type Activities	Governmental Type Activities
ASSETS				
Cash equivalents	\$ 168,120,049	\$ 1,138	\$ 250,758,111	\$ 1,019,582
Investments	102,793,563	-	102,847,563	-
Assets held by others	-	-	528,600	-
Loans receivable, net	529,477,597	-	479,201,544	-
Other	2,169,918	43,892	2,323,752	48,139
Total assets	\$ 802,561,127	\$ 45,030	\$ 835,659,570	\$ 1,067,721
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources from pensions	\$ 108,811	\$ -	\$ 44,777	\$ -
Deferred loss on refunding	2,153,191	8,383,672	2,268,130	9,194,777
Total deferred outflows	\$ 2,262,002	\$ 8,383,672	\$ 2,312,907	\$ 9,194,777
LIABILITIES				
Bond payable, net	\$ 191,048,275	\$ 201,968,720	\$ 197,761,815	\$ 215,964,079
Net pension liability	123,848	-	77,670	-
Other	3,147,196	909,400	3,281,488	978,318
Total liabilities	\$ 194,319,319	\$ 202,878,120	\$ 201,120,973	\$ 216,942,397
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources from pensions	\$ 79,840	\$ -	\$ 82,164	\$ -
Total deferred inflows of resources	\$ 79,840	\$ -	\$ 82,164	\$ -
NET POSITION				
Restricted	\$ 595,585,827	\$ 1,138	\$ 618,890,124	\$ 1,019,582
Unrestricted (deficit)	14,838,143	(194,450,556)	17,879,216	(207,699,481)
Total net position	\$ 610,423,970	\$ (194,449,418)	\$ 636,769,340	\$ (206,679,899)

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

FINANCIAL ANALYSIS OF THE COUNCIL AS A WHOLE (Continued)

**Table 2
Changes in Net Position**

	2016	2016	2015	2015
	Business Type Activities	Governmental Type Activities	Business Type Activities	Governmental Type Activities
Revenues				
Program revenues				
Charges for services	\$ 1,940,037	\$ -	\$ 2,590,776	\$ -
General revenues				
Miscellaneous revenues	108,260	-	-	-
Intergovernmental	36,000,000	22,500,000	26,000,000	23,000,000
Investment earnings	687,085	13,751	248,852	3,728
Total general revenues	36,795,345	22,513,751	26,248,852	23,003,728
Total revenues	38,735,382	22,513,751	28,839,628	23,003,728
Expenses				
General & administrative	787,058	-	866,523	-
Interest on long-term debt	7,688,593	8,819,228	7,040,321	9,343,684
Bond issue costs	-	-	604,567	367,262
Infrastructure & economic development	55,952,143	-	60,472,348	-
Loss on uncollectible loans	2,117,000	-	8,750,000	-
Transfers (in) out	(1,464,042)	1,464,042	-	-
Total expenses	65,080,752	10,283,270	77,733,759	9,710,946
Changes in net position	(26,345,370)	12,230,481	(48,894,131)	13,292,782
Beginning net position (deficit)	636,769,340	(206,679,899)	685,663,471	(219,972,681)
Ending net position (deficit)	\$ 610,423,970	\$ (194,449,418)	\$ 636,769,340	\$ (206,679,899)

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, decreased \$84 million, from \$252 million last year to \$168 million at the end of the current year. The decrease in cash was primarily the result of expenses for loans and grants totaling \$127 million, as well as contributions of the State Matching funds for the federally sponsored Drinking Water Treatment and Clean Water State Revolving Funds, principal and interest payments on outstanding bonds payable, and general and administrative expenses.

Offsetting these decreases were \$36 million received in Excess Lottery funds, the mineral severance tax, interest on loans, principal repayments of loans and investment earnings

Investments remained consistent with the prior year decreasing \$54 thousand resulting from the net loss on assets.

Assets held by others decreased \$529 thousand due to the sale of property which had been acquired from Spencer Veneer in lieu of foreclosure of their economic development loan.

Loans receivable increased \$50.3 million. This increase was primarily the combined effect of disbursements of new and prior year loan funds to projects of approximately \$71.0 million, less repayments of principal on loans of approximately \$18.9 million, offset by an increase in the allowance for uncollectible economic development loans of \$1.8 million.

Deferred outflows of resources decreased \$862 thousand due to amortization of the loss on refunding and the deferral of pensions and pension contributions.

Total liabilities decreased \$21 million relating to a net decrease in bonds payable from the previous year. Current year principal repayments on outstanding debt were approximately \$21.6 million.

Deferred inflows of resources decreased by \$2 thousand due to the current year pension activity.

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 decreased approximately \$24 million during the current year. That decrease can be explained primarily as follows: mineral severance tax revenue of \$22.5 million, excess lottery funds of \$6 million to pay debt service on the Chesapeake Bay bonds, and a transfer from the unrestricted funds of \$26.7 million for loan disbursements. Also, included in the increase were loan repayments of principal and interest totaling \$21.1 million. Offsetting the increases were disbursements of \$29 million of principal and interest expense related to revenue and general obligation bonds and loan disbursements of \$71 million. Transfers from restricted accounts included interest earnings on accounts funded with residual mineral severance tax revenue and 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.

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

FINANCIAL ANALYSIS OF THE COUNCIL AS A WHOLE (Continued)

Unrestricted Net Position for business type activities as of June 30, 2016 is \$14.8 million, a decrease from the prior year of approximately \$3 million. This is due to the receipt of excess lottery revenue of \$30 million offset by an internal transfer within the business type activities to restricted funds of \$26.7 million, payment of general and administrative expenses of \$787 thousand, and \$6 million for the State Match of the federally sponsored Clean Water State Revolving Fund and the Drinking Water Treatment Revolving Fund,

Fund Balance/Government-wide Net Position The only activity reported in the governmental fund relates to future payments of the General Obligation Bonds which mature through fiscal year 2027. See Note 8 in the Notes to the Financial Statements for further detail. Although the governmental fund reports a deficit, \$22.5 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, 2016, is \$416 million.

Charges for services consist of interest earnings on loans to projects which decreased during the current year by approximately \$651 thousand. Loans receivable had a net increase of \$50 million during the current year; however 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 \$22.5 million mineral severance tax revenue and \$36 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 2016. 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, as well as payment of debt service on the 2014 Series bonds, issued to provide grants for the Chesapeake Bay and Greenbrier Watershed projects.

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 increased \$448 thousand from the prior year. Interest rates for the money market accounts in which most of the Council's funds are invested increased during the second half of the fiscal year.

Interest on long-term debt increased approximately \$123 thousand. The increase is due to the timing of the issuance of the Series 2014 bond resulting in only one interest payment made in fiscal year 2015.

Infrastructure and economic development activity consists of grants paid to projects, binding commitments as well as the contributions for the required State matches for the federally sponsored Drinking Water Treatment and Clean Water State Revolving Funds. The current year disbursement of State Matching funds was approximately \$6 million, of which \$1.8 million was allocated to the Drinking Water Treatment Revolving Fund and \$4.2 million to the Clean Water State Revolving Fund. As of year-end, the Council has 37 binding commitments. These include 19 loans and 18 grants for which the funds are committed and not disbursed as described in Note 15 to the financial statements.

Loss on uncollectible loans decreased \$6.6 due to the write off of a \$5 million EDA loan in fiscal year 2015 that had met certain criteria of the forgivable loan feature. The allowance for uncollectible loans was increased \$1.8 million to allow for two additional EDA loans that have forgivable features and it is more likely than not that certain criteria will be met in future years to permit the write off of those two loans.

**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.

Section 18a and related subsections of the West Virginia Code provide for certain deposits to accounts available to the Council for debt service payments and to fund water, wastewater, and economic development projects. Deposits for debt service payments are to be made during each fiscal year in the amount of \$6 million. For the year ended June 30, 2016, deposits of \$30 million are to be made for water, wastewater, and economic development projects, with no more than 50% of the funds deposited to be spent on grants. For the year ended June 30, 2017, \$20 million is to be deposited for projects and includes the stipulation that no more than 50% of the funds deposited may be spend for grants. Section 18a also includes language establishing the priority of deposits for these purposes and prescribes the timing of the deposits.

In accordance to House Bill 205, \$36 million was appropriated to the West Virginia Infrastructure Council during fiscal year 2016 with the first \$6 million to be used for debt service on the Series 2014 bonds that were issued for the Chesapeake Bay and Greenbrier Watershed projects and the remaining \$30 million to be used for water, wastewater and economic development projects around the state.

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, \$367 million (prior to amortization) in general obligation, revenue and refunding bonds issued for the benefit of the Council were outstanding versus \$385 million in the prior year, a decrease of 5% resulting from scheduled principal payments and the offset by current year accreted interest on capital appreciation bonds. For more information on long-term debt, please refer to Note 8 of the financial statements.

As of June 30, 2016, 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, 2016, the State of West Virginia, Infrastructure General Obligation Bonds Series 1996A had a Standard & Poor's rating of AA-. The State of West Virginia Infrastructure General Obligation Bonds Series 2006 A and the State of West Virginia Infrastructure General Obligation Refunding Bonds Series 2011A, Series 2015A and Series 2015B had a Standard & Poor's rating of AA-. The bond insurer, National Public Finance Guarantee Corporation, had a rating by Standard & Poor's of AA-.

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

DEBT ADMINISTRATION (Continued)

As of June 30, 2016 the West Virginia Water Development Authority, Infrastructure Revenue Refunding Bonds Series 2012A had a Moody's rating of Aa3 and a Fitch rating of AA-.

As of June 30, 2015, the West Virginia Water Development Authority, Infrastructure Excess Lottery Revenue Bonds Series 2014A had a rating by Standard & Poor's of AAA.

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 \$26 million for fiscal year 2017 from the excess lottery revenue fund. This amount is contingent on revenue collected from state video lottery operations meeting expected projections; therefore, the Council may receive up to \$20 million to provide additional loans, grants and other funding assistance and an additional \$6 million restricted for debt service on bonds issued to fund Chesapeake Bay and Greenbrier Watershed projects.

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, 2016

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Cash equivalents	\$ 1,138	\$ 168,120,049	\$ 168,121,187
Investments	-	102,793,563	102,793,563
Accrued interest receivable	-	1,803,500	1,803,500
Prepaid insurance	43,892	348,730	392,622
Loans receivable, net of allowances of \$16,410,000	-	529,477,597	529,477,597
Miscellaneous receivable	-	17,688	17,688
Total assets	\$ 45,030	\$ 802,561,127	\$ 802,606,157
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Losses on bond refundings	\$ 8,383,672	\$ 2,153,191	\$ 10,536,863
Deferred outflows of resources from pension	-	108,811	108,811
	\$ 8,383,672	\$ 2,262,002	\$ 10,645,674
 <u>LIABILITIES</u>			
Accounts payable	\$ -	\$ 16,570	\$ 16,570
Due to other State of West Virginia agencies	-	172,161	172,161
Accrued interest payable	909,400	2,958,465	3,867,865
Net pension liability	-	123,848	123,848
General obligation bonds			
Due within one year, net of unamortized premium of \$1,381,610	18,216,610	-	18,216,610
Due after one year, net of unamortized premium of \$12,240,197	183,752,110	-	183,752,110
Revenue bonds			
Due within one year, net of unamortized premium of \$686,116 and unamortized discount of \$7,577	-	5,883,539	5,883,539
Due after one year, net of unamortized premium of \$12,077,092 and unamortized discount of \$47,356	-	185,164,736	185,164,736
Total liabilities	\$ 202,878,120	\$ 194,319,319	\$ 397,197,439
 <u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferrend inflows of resources from pensions	\$ -	\$ 79,840	\$ 79,840
 <u>NET POSITION</u>			
Net position:			
Restricted	\$ 1,138	\$ 595,585,827	\$ 595,586,965
Unrestricted (deficit)	(194,450,556)	14,838,143	(179,612,413)
Total net position	\$ (194,449,418)	\$ 610,423,970	\$ 415,974,552

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, 2016

Functions/Programs	Expenses	Program Revenue	Net (Expenses) Revenue and Changes in Net Position		Total
			Governmental Activities	Business-Type Activities	
Governmental activities:					
Interest and bond issuance costs on long-term debt	\$ 8,819,228	\$ -	\$ (8,819,228)	\$ -	\$ (8,819,228)
Business-type activities:					
Infrastructure and jobs development	66,544,794	1,940,037	-	(64,604,757)	(64,604,757)
Total primary government	<u>\$ 75,364,022</u>	<u>\$ 1,940,037</u>	<u>\$ (8,819,228)</u>	<u>\$ (64,604,757)</u>	<u>\$ (73,423,985)</u>
General revenues:					
Intergovernmental			\$ 22,500,000	\$ 36,000,000	\$ 58,500,000
Other			-	108,260	108,260
Investment earnings			13,751	687,085	700,836
Transfers in (out)			(1,464,042)	1,464,042	-
Total general revenues and transfers			<u>21,049,709</u>	<u>38,259,387</u>	<u>59,309,096</u>
Change in net position			12,230,481	(26,345,370)	(14,114,889)
Net position, beginning of year			<u>(206,679,899)</u>	<u>636,769,340</u>	<u>430,089,441</u>
Net position, end of year			<u>\$ (194,449,418)</u>	<u>\$ 610,423,970</u>	<u>\$ 415,974,552</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, 2016

	<u>Debt Service Fund</u>
<u>ASSETS</u>	
Cash	<u>\$ 1,138</u>
<u>FUND BALANCE</u>	
Restricted fund balance	<u>\$ 1,138</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, 2016

	<u>Debt Service Fund</u>
Revenues:	
Intergovernmental	\$ 22,500,000
Investment earnings	<u>13,751</u>
Total revenues	<u>22,513,751</u>
Expenditures:	
Debt service:	
Principal	16,405,000
Interest	<u>5,663,153</u>
Total expenditures	<u>22,068,153</u>
Other Financing Uses:	
Transfers out	<u>1,464,042</u>
Total other financing uses	<u>1,464,042</u>
Net change in fund balance	(1,018,444)
Fund balance, beginning of year	<u>1,019,582</u>
Fund balance, end of year	<u>\$ 1,138</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, 2016

<u>ASSETS</u>	<u>Enterprise Fund</u>
Current assets:	
Cash equivalents	\$ 168,120,049
Investments	102,793,563
Current portion of loans receivable	20,003,318
Accrued interest receivable	1,803,500
Prepaid insurance	15,152
Miscellaneous receivable	17,688
Total current assets	<u>292,753,270</u>
Noncurrent assets:	
Prepaid insurance	333,578
Loans receivable, net of allowances of \$16,410,000	509,474,279
Total noncurrent assets	<u>509,807,857</u>
Total assets	<u>\$ 802,561,127</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred outflows of resources from pensions	\$ 108,811
Loss on bond refundings	2,153,191
	<u>\$ 2,262,002</u>
 <u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 16,570
Due to other State of West Virginia agencies	172,161
Accrued interest payable	2,958,465
Current portion of revenue bonds payable, net of unamortized premium of \$686,116 and unamortized discount of \$7,577	5,883,539
Total current liabilities	<u>9,030,735</u>
Noncurrent liabilities:	
Net pension liability	123,848
Noncurrent portion of revenue bonds payable, net of unamortized premium of \$12,077,092 and unamortized discount of \$47,356	185,164,736
Total liabilities	<u>\$ 194,319,319</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred inflows of resources from pensions	<u>\$ 79,840</u>
 <u>NET POSITION</u>	
Restricted	\$ 595,585,827
Unrestricted	14,838,143
Total net position	<u>\$ 610,423,970</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, 2016

	<u>Enterprise Fund</u>
Interest charges for services	\$ <u>1,940,037</u>
Operating expenses:	
Infrastructure and economic development	55,952,143
Provisions for uncollectible loans	2,117,000
General and administrative	<u>787,058</u>
Total operating expenses	<u>58,856,201</u>
Operating loss	<u>(56,916,164)</u>
Nonoperating revenues (expenses):	
Miscellaneous income	108,260
Intergovernmental	36,000,000
Investment earnings, net	687,085
Interest on bonds	<u>(7,688,593)</u>
Total nonoperating revenues, net	<u>29,106,752</u>
Transfers in	<u>1,464,042</u>
Change in net position	(26,345,370)
Net position, beginning of year	<u>636,769,340</u>
Net position, end of year	<u>\$ 610,423,970</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, 2016

	<u>Enterprise Fund</u>
Cash flows from operating activities:	
Receipts of principal on loans	\$ 18,982,199
Receipts of interest on loans	2,113,143
Disbursements of loans	(71,025,252)
Disbursements of grants	(55,952,143)
Disbursements of general and administrative expenses	(811,544)
Disbursements on behalf of employees	(20,180)
Receipts on behalf of other agencies	178,600
Net cash used in operations	<u>(106,535,177)</u>
Cash flows from noncapital financing activities:	
Transfers	1,464,042
Proceeds from sale of assets held by others	108,260
Excess lottery and other appropriations	36,000,000
Principal paid on revenue bonds	(6,035,001)
Interest paid on revenue bonds	(8,346,846)
Net cash provided by noncapital financing activities	<u>23,190,455</u>
Cash flows from investing activities:	
Purchase of investments	(199,657,825)
Proceeds from sale of investments	199,816,759
Investment earnings	547,726
Net cash provided by investing activities	<u>706,660</u>
Net decrease in cash and cash equivalents	(82,638,062)
Cash and cash equivalents, beginning of year	<u>250,758,111</u>
Cash and cash equivalents, end of year	<u>\$ 168,120,049</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (56,916,164)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Provision for loan losses	2,117,000
Pension expense	17,237
Changes in operating accounts:	
Due to other agencies	(22,523)
Due from other agencies	528,600
Loans receivable	(52,393,053)
Miscellaneous receivables	230
Accrued interest receivable	172,876
Accounts payable	(1,963)
Deferred outflows of resources due to pension contributions	<u>(37,417)</u>
Net cash used in operating activities	<u>\$ (106,535,177)</u>

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

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL
NOTES TO FINANCIAL STATEMENTS

1 - REPORTING ENTITY

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

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

As the state is able to impose its will over the Council, the Council is included in the State's comprehensive annual financial report as an enterprise fund.

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 certain landing activities that are financed with debt, which is secured by a pledge of fees and charges for that activity. In addition, a grant program for watershed improvements was funded with proceeds of a bond issue. The debt service on the bond issue is to be paid from annual appropriations of funds from an external revenue source.

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 POLICIESBudgetary 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 are reported in accordance with GAAP and are carried at either cost, amortized cost, contract value, or fair value as applicable.

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

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

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

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

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

Interfund Transactions

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

Bond Premiums, Discounts and Issuance Costs

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

Deferred Outflows of Resources / Deferred Inflows of Resources

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

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

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

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

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

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, 2016, 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.

Net Position

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

5 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Total fund balance on governmental fund balance sheet	\$	1,138
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		43,892
Deferred outflows of resources		8,383,672

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)**5 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)**

General obligation bonds	(201,968,720)
Accrued interest on general obligation bonds	<u>(909,400)</u>
Net position (deficit) of governmental activities	<u>\$ (194,449,418)</u>

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	\$ (1,018,444)
Principal debt payments recorded on the modified accrual basis of accounting are not recorded in the governmental activities	16,405,000
Accretion of interest related to capital appreciation bonds is an expense of the governmental activities	<u>(3,156,075)</u>
Change in net position of governmental activities	<u>\$ 12,230,481</u>

6 - DEPOSIT AND INVESTMENT RISK DISCLOSURES

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

As required by West Virginia Code, the mineral severance tax revenue appropriated annually for debt service on the general obligation bonds is deposited in the General Obligation Debt Service Fund held by the Treasurer of the State of West Virginia and is invested in accordance with the Act and in conformity with investment guidelines of the Board of Treasury Investments (BTI). The Council's Debt Service Fund, which is included in the General Obligation Debt Service Fund's cash balances, reports a carrying amount of \$1,138 at June 30, 2016.

Interest Rate Risk - West Virginia Money Market Pool

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

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

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

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

<u>Security Type</u>	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 42,100	1
U.S. treasury notes	231,398	88
U.S. treasury bills	19,982	91
Commercial paper	922,891	48
Certificates of deposit	208,007	40
Corporate bonds and notes	49,282	14
U.S. agency bonds & notes	9,499	24
Money market funds	72,370	1
	<u>\$ 1,555,529</u>	49

Interest Rate Risk - All Other Investments

As of June 30, 2016, the Council had the following investments and maturities:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>1-5</u>
Guaranteed investment contracts	\$ 2,870,313	\$ -	\$ 2,870,313
U.S. Treasury obligations	49,989,250	49,989,250	-
U.S. Government agency obligations	49,934,000	49,934,000	-
Money markets	168,120,049	168,120,049	-
	<u>\$ 270,913,612</u>	<u>\$ 268,043,299</u>	<u>\$ 2,870,313</u>

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

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

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

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

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

Concentration of Credit Risk - All Other Investments

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

<u>Permitted Investments</u>	<u>Maximum Percentage of Portfolio</u>	<u>Enterprise Fund Percentage as of June 30, 2016</u>
(a) Direct Federal Obligations	100%	36.88%
(b) Federally Guaranteed Obligations	100%	-
(c) Federal Agency Obligations	90%	-
(d) Money Markets	90%	62.06%
(e) Repurchase Agreements/Investment Contracts	90%	1.06%
(f) Time Deposits/Certificates of Deposit	90%	-
(g) Demand Deposits	30%	-
(h) Corporate Obligations	15%	-
(i) Other State/Local Obligations	15%	-
(j) West Virginia Obligations	15%	-
(k) Housing Bonds – Secured by Annual Contributions Contracts	5%	-

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

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

Credit Risk - West Virginia Money Market Pool

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

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

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

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated A+ 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 obligations or obligations guaranteed as to repayment of interest and principal by the United States of America. 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+	\$ 290,118	18.65 %
	P-1	A-1	632,773	40.68
Corporate bonds and notes	Aa1	AA-	23,014	1.48
	Aa3	AA-	15,000	.96
	A2	A	11,268	.72
	Aaa	AA+	9,499	.61
U.S. Treasury notes*	Aaa	AA+	231,398	14.88
U.S. Treasury bills*	P-1	A-1+	19,982	1.28
Negotiable certificates of deposit	Aa2	AA-	3,000	.19
	Aa3	AA-	6,000	.39
	P-1	A-1+	78,006	5.02
	P-1	A-1	121,001	7.78
Money market funds	Aaa	AAAm	72,370	4.65
Repurchase agreements (underlying securities):				
U.S. treasury notes*	Aaa	AA+	42,100	2.71
			<u>\$ 1,555,529</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)**6 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)**Credit Risk - All Other Investments

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

<u>Security Type</u>	<u>Moody's</u>	<u>Standard & Poors</u>	<u>Carrying Value</u>
Investment of bond proceeds:			
Guaranteed investment contracts	A2	AA-	\$ 2,870,313
Investment of other revenues:			
Money markets	Aaa-mf	AAAm	168,120,049
U.S. Treasury obligations	Aaa-mf	AAAm	49,989,250
U.S. Government agency obligations	Aaa-mf	AAAm	49,934,000
West Virginia Money Market Pool	-	AAAm	<u>1,138</u>
Total cash equivalents and investments			<u>\$ 270,914,750</u>

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

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

Custodial Credit Risk - West Virginia Money Market Pool

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

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)**6 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)**Custodial Credit Risk - All Other Investments

The Authority's investment guidelines for the Council put certain restrictions on repurchase agreements, including the following: the Council can only enter into repurchase agreements with financial institutions having a credit rating of at least "A/A"; collateral is limited to direct federal, federally guaranteed or federal agency obligations; collateral is required to be delivered to a third-party custodian, the Council or the trustee; and, the financial institution must guarantee the aggregate market value of the collateral will equal or exceed the outstanding repurchase agreement by the margin specified in the respective repurchase agreement. As of June 30, 2016, 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	\$ 270,913,612
Less: cash equivalents	<u>(168,120,049)</u>
Carrying amount of investments	<u>\$ 102,793,563</u>
As reported on the Statement of Net Position - Proprietary Fund:	
Investments	<u>\$ 102,793,563</u>

7 - INVESTMENTS MEASURED AT FAIR VALUE

The Council measures the investments listed below at fair value for financial reporting purposes. GASB Statement No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. The Council categorizes fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America in accordance with GASB Statement No. 72.

The fair value hierarchy established under GASB Statement No. 72 categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

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

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

Level 3 inputs - Unobservable inputs for an asset or liability.

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)**7 - INVESTMENTS MEASURED AT FAIR VALUE (Continued)**

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The table below summarizes the recurring fair value measurements of the investment securities in accordance with GASB Statement No. 72 fair value hierarchy levels as of June 30, 2016.

Investment Type	Level 1	Level 2	Level 3	Total
U.S. Treasury obligations	\$ -	\$ 49,989,250	\$ -	\$ 49,989,250
U.S. Government agency obligations	-	49,934,000	-	\$ 49,934,000
	<u>\$ -</u>	<u>\$ 99,923,250</u>	<u>\$ -</u>	<u>\$ 99,923,250</u>

8 - LONG - TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2016:

	Balance July 1, 2015	Additions/ Accretions	Debt Reductions	Balance June 30, 2016
Governmental fund type:				
General Obligation Bonds*				
1996 Series A and D	\$ 7,995,000	\$ -	\$ 665,000	\$ 7,330,000
1999 Series A Capital Appreciation	72,970,663	3,791,250	7,050,000	69,711,913
2006 Series A Refunding	40,260,000	-	4,260,000	36,000,000
2011 Series A Refunding	8,080,000	-	3,060,000	5,020,000
2015 Series A Refunding	65,965,000	-	-	65,965,000
2015 Series B Refunding	5,690,000	-	1,370,000	4,320,000
	<u>200,960,663</u>	<u>3,791,250</u>	<u>16,405,000</u>	<u>188,346,913</u>
Business type activity:				
Revenue and Refunding Bonds				
2006 Series A	39,055,000	-	915,000	38,140,000
2006 Series B	9,085,000	-	675,000	8,410,000
2007 Series A	34,835,000	-	625,000	34,210,000
2012 Series A Refunding	25,610,000	-	505,000	25,105,000
2014 Series A	75,790,000	-	3,315,000	72,475,000
	<u>184,375,000</u>	<u>-</u>	<u>6,035,000</u>	<u>178,340,000</u>
Total	<u>\$ 385,335,663</u>	<u>\$ 3,791,250</u>	<u>\$ 22,440,000</u>	<u>\$ 366,686,913</u>

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)**8 - LONG -TERM DEBT (Continued)**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. In January 2015, the Infrastructure General Obligation Refunding Bonds, Series 2015A, refunded Series 1996D, Series 1998A, and partially refunded Series 2006. The Infrastructure General Obligation Refunding Bonds, Series 2015B, refunded Series 1999C.

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 \$22.5 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 \$16,405,000 and \$5,663,153, respectively for the year ended June 30, 2016.

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>
2017	\$ 9,710,000	\$ 5,220,613	\$ 14,930,613
2018	9,980,000	4,752,900	14,732,900
2019	10,530,000	4,249,031	14,779,031
2020	9,635,000	3,739,563	13,374,563
2021	10,060,000	3,254,188	13,314,188
	<u>49,915,000</u>	<u>21,216,295</u>	<u>71,131,295</u>
2022 - 2026	56,275,000	8,768,944	65,043,944
2027	12,445,000	306,825	12,751,825
	<u>68,720,000</u>	<u>9,075,769</u>	<u>77,795,769</u>
	<u>\$ 118,635,000</u>	<u>\$ 30,292,064</u>	<u>\$ 148,927,064</u>

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)**8 - LONG -TERM DEBT (Continued)**Debt Service Fund (Continued)

Capital Appreciation Bonds:

	Principal, net of amounts to be accrued in future years	Amounts to be accrued in future years	Total
2017	\$ 7,000,214	\$ 124,786	\$ 7,125,000
2018	6,585,060	489,940	7,075,000
2019	6,189,195	835,805	7,025,000
2020	7,155,799	1,419,201	8,575,000
2021	6,817,400	1,807,600	8,625,000
	<u>33,747,668</u>	<u>4,677,332</u>	<u>38,425,000</u>
2022 - 2026	30,570,251	14,904,749	45,475,000
2027	5,393,994	4,056,006	9,450,000
	<u>35,964,245</u>	<u>18,960,755</u>	<u>54,925,000</u>
Total capital appreciation bonds	<u>69,711,913</u>	<u>\$ 23,638,087</u>	<u>\$ 93,350,000</u>
Total general obligation bonds and capital appreciation bonds	188,346,913		
Add: unamortized premium	13,621,807		
Less: amount due within one year	<u>(18,216,610)</u>		
Amount due after one year	<u>\$ 183,752,110</u>		

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)**8 - LONG - TERM DEBT (Continued)**Business Type Activity

Future maturities of principal and interest of revenue and refunding bonds, with interest ranging from 2.0% to 5.0% and maturing through October 2045, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 5,205,000	\$ 8,095,598	\$ 13,300,598
2018	5,430,000	7,859,423	13,289,423
2019	5,645,000	7,607,285	13,252,285
2020	5,940,000	7,340,154	13,280,154
2021	6,210,000	7,059,779	13,269,779
	<u>28,430,000</u>	<u>37,962,239</u>	<u>66,392,239</u>
2022 - 2026	35,165,000	30,588,161	65,753,161
2027 - 2031	42,145,000	21,707,019	63,852,019
2032 - 2036	44,905,000	11,178,419	56,083,419
2037 - 2041	19,940,000	3,686,825	23,626,825
2042 - 2046	7,755,000	799,069	8,554,069
	<u>149,910,000</u>	<u>67,959,493</u>	<u>217,869,493</u>
Total revenue and refunding bonds	178,340,000	\$ 105,921,732	\$ 284,261,732
Add: unamortized premium	12,763,208		
Less: unamortized discount	(54,933)		
Less: amount due within one year	<u>(5,883,539)</u>		
Amount due after one year	<u>\$ 185,164,736</u>		

The \$6,000,000 statutory allocation of revenues from the State Excess Lottery Revenue Fund to the Council will pay annual debt service on the 2014 Series A Bonds. West Virginia Code §29-22-18a prescribes the priority and timing of the deposits to the Council for debt service.

The primary source of repayment for the remaining revenue and refunding bonds is the receipt of payments of principal and interest on a set of loans, known as defined loans, previously made to projects from general obligation and revenue bond proceeds. Repayments of principal and interest on the defined loans of \$7,533,768 and \$863,686 respectively were available for revenue bond debt service of \$7,360,223, comprised of \$2,720,000 for principal and \$4,640,223 for interest, respectively for the year ended June 30, 2016.

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)**8 - LONG -TERM DEBT (Continued)**Business Type Activity (Continued)

The bonds are subject to the arbitrage rebate provisions of the Internal Revenue Code which requires that 90% of excess investment earnings on the bond proceeds be paid to the United States Internal Revenue Service every five years in order for the bonds to maintain their tax-exempt status. As of June 30, 2016, 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, 2016, there were \$70,105,000 in defeased general obligation bonds outstanding.

9 - TRANSACTIONS WITH STATE OF WEST VIRGINIA AGENCIES

The Council received \$22.5 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 2016. 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. In accordance to House Bill 205, \$36 million was appropriated to the West Virginia Infrastructure Council during fiscal year 2016 with the first \$6 million to be used for debt service on the Series 2014 bonds that were issued for the Chesapeake Bay and Greenbrier Watershed projects and the remaining \$30 million to be used for water, wastewater and economic development projects around the state.

During the year ended June 30, 2016, the Council contributed \$1,757,400 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, 2016, the Council contributed \$4,165,800 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, 2016, the Council had incurred \$787,058 of expenses of which \$172,161 remains unpaid at June 30, 2016.

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)**10 - EMPLOYEE BENEFITS**Pension Plan*Plan Description*

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

Benefits Provided

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

Contributions

Although contributions are not actuarially determined, actuarial valuations are performed to assist the Legislature in establishing appropriate contribution rates. Current funding policy requires contributions, consisting of member contributions of 4.5% of covered payroll for all members hired before July 1, 2015, or member contributions of 6% for all members hired on or after July 1, 2015, and employer contributions of 13.5%, 14.0%, and 14.5% for the years ended June 30, 2016, 2015, and 2014, respectively.

During the years ended June 30, 2016, 2015, and 2014, the Council's contributions to PERS required and made were approximately \$37,417, \$42,090, and \$37,400, respectively.

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

At June 30, 2016, the Council reported a liability of \$123,848 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014, rolled forward to the measurement date of June 30, 2015. The Council's proportion of the net pension liability was based on the Council's share of contributions to the pension plan relative to the contributions of all employers participating in PERS for the year ended June 30, 2015. At June 30, 2015, the Council's proportion was 0.022169 percent, which was a decrease of 0.0000109 from its proportion measured as of June 30, 2014.

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)**10 - EMPLOYEE BENEFITS (Continued)**Pension Plan (Continued)

For the year ended June 30, 2016, the Council recognized pension expense of \$17,237. At June 30, 2016, the Council reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 37,791	\$ 64,943
Changes in assumptions	-	14,897
Changes in proportion and differences between the Council's contributions and proportionate share of contributions	8,273	-
Difference between expected and actual experience	25,330	-
The Council's contributions made subsequent to the measurement date of June 30, 2015	<u>37,417</u>	<u>-</u>
Total	<u>\$ 108,811</u>	<u>\$ 79,840</u>

\$37,417 reported as deferred outflows of resources related to pensions resulting from the Council's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,

2016	\$ (5,762)
2017	(5,762)
2018	(6,366)
2019	9,444

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	1.9 percent
Salary increases	3.0 - 6.0 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense

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

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)

10 - EMPLOYEE BENEFITS (Continued)

Pension Plan (Continued)

An experience study, which was based on the years 2009 through 2014, was completed prior to the 2015 actuarial valuation. As a result, several assumptions were changed for the actuarial valuation for the year ending June 30, 2015 as follows:

	<u>2015</u>	<u>2014</u>
Projected salary increases:		
State	3.0-4.6%	4.25-6.0%
Nonstate	3.35-6.0%	4.25-6.0%
Inflation rate	1.9%	2.2%
Mortality rates	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA Healthy females - 101% of RP-2000 Non-Annuitant, Scale AA Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA Disabled females - 107% of RP-2000 Disabled Annuitant, Scale AA	Healthy males - 1983 GAM Healthy females - 1971 GAM Disabled males - 1971 GAM Disabled females - Revenue ruling 96-7
Withdrawal rates		
State	1.75-35.1%	1 - 26%
Non-state	2-35.8%	2 - 31.2%
Disability rates	0 - .675%	0 - .8%

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	15.0%	2.9 - 4.8%
Domestic equity	27.5%	7.6%
International equity	27.5%	8.5%
Real estate	10.0%	6.8%
Private equity	10.0%	9.9%
Hedge funds	10.0%	5.0%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will continue to be made at statutorily required rates, which are determined annually based on actuarial valuations. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)**10 - EMPLOYEE BENEFITS (Continued)***Sensitivity of the Council's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

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

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
The Council's proportionate share of the net pension liability (asset)	\$ 285,498	\$ 123,848	\$ (12,824)

11 - SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses in the enterprise fund for the year ended June 30, 2016, were as follows:

Salaries and benefits	\$ 405,466
Legal	129,132
Consulting and professional	37,469
Rentals	91,106
Travel and training	9,053
Office supplies	1,593
Computer services	929
Telecommunications	1,018
Trustee	105,363
Insurance	4,530
Postage	253
Storage Expense	<u>1,146</u>
Total general and administrative	<u>\$ 787,058</u>

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

The Council obtained coverage transferring its risk for general liability, property damage, business interruption, errors and omissions, and natural disasters from the West Virginia Board of Risk and Insurance Management in exchange for an annual premium. There were no changes in any of the above coverages or claims in excess of coverage for the year ended June 30, 2016.

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)**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 \$595,585,827 of restricted net position, of which \$96,293,244 is restricted for the debt service related to the defined loan program segment of 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, 2016, \$54,085,386 was designated by the Council for loans and grants to water, wastewater, and economic development projects. The Council also has commitments to provide grants in the amount of \$13,313,426 for Chesapeake Bay and Greenbrier Watershed projects. The Council has also designated \$1,662,400 for contributions to one State agency for the required State match for federally sponsored revolving funds.

On October 15, 2015, the Board of Directors of the West Virginia Water Development Authority authorized the refunding of the outstanding 2007 Series A bonds in the amount of \$33,560,000 through the issuance of the West Virginia Water Development Authority Infrastructure Refunding Revenue Bonds (West Virginia Infrastructure and Jobs Development Council Program) 2016 Series A bonds. Due to unforeseen circumstances the refunding was delayed. In the meantime, the 2006 Series A in the amount of \$37,185,000 and 2006 Series B in the amount of \$9,495,000 are now callable. On October 26, 2016, the Board of Directors of the West Virginia Water Development Authority authorized the refunding of the 2006 Series A and 2006 Series B. The refunding of all three series is expected to occur prior to December 31, 2016.

15 - UNCERTAINTY

The Council's fiscal agent is currently cooperating with a State of West Virginia legislative oversight commission request for information related to certain administrative expenses for the period July 1, 2011 to the present. Certain of these administrative expenses are reported by the Council in its financial statements. This inquiry process is ongoing and no information regarding the status of this matter has been communicated to management. Consequently, management cannot determine the effect, if any, of this inquiry on the Council's financial position. Although an amount cannot presently be estimated, due to the uncertainty with regard to this matter, it is at least reasonably possible that an effect on the Council's financial position could occur in the near term.

16 - NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued four statements relating to accounting and financial reporting for pension and postemployment benefit plans: Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; Statement No. 82, *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*. The provisions of Statements No. 73 and 74 are effective for financial statements for periods beginning after June 15, 2016, and the provisions of Statement No. 75 are effective for periods beginning after June 15, 2017. The provisions of Statement No. 82 are effective for periods beginning after June, 15, 2016 and certain requirements of the statement are effective for the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Council management has not determined the effect, if any, these statements will have on its financial statements.

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS
(Continued)**17 - SEGMENT INFORMATION**

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

During the fiscal year ended June 30, 2016, 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, 2015 as follows:

Defined loan program segment:

Beginning net position as of June 30, 2015, as previously reported	\$ 97,585,377
Adjustment for segment replacement of certain loans	<u>1,535,653</u>
Beginning net position, as restated	<u>\$ 99,121,030</u>

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2016

17 - SEGMENT INFORMATION (Continued)

	<u>Defined Loan Program</u>
Assets:	
Current	\$ 24,082,839
Noncurrent	<u>179,138,246</u>
Total assets	<u>\$ 203,221,085</u>
Deferred outflows of resources:	
Losses on bond refundings	<u>2,153,191</u>
	<u>\$ 2,153,191</u>
Liabilities:	
Current	\$ 4,556,758
Noncurrent	<u>104,524,274</u>
Total liabilities	<u>109,081,032</u>
Net position:	
Restricted	<u>\$ 96,293,244</u>
Operating revenue:	
Charges for services	\$ 863,686
Operating expenses:	
General and administrative	239,231
Interest on bonds	<u>4,668,800</u>
Operating loss:	<u>(4,044,345)</u>
Nonoperating revenues (expenses):	
Interest and investment revenue, net of arbitrage	152,274
Other	(22,729)
Transfers (net)	<u>1,087,014</u>
Change in net position	(2,827,786)
Beginning net position, restated	<u>99,121,030</u>
Ending net position	<u>\$ 96,293,244</u>
Cash flows:	
Net cash provided (used) by:	
Operating activities	\$ 3,915,137
Noncapital financing activities	(1,589,942)
Investing activities	150,891
Beginning cash and cash equivalents	<u>13,901,213</u>
Ending cash and cash equivalents	<u>\$ 16,377,299</u>

REQUIRED SUPPLEMENTARY INFORMATION

THE WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Public Employees Retirement System Plan

	Year Ended June 30,	
	2016	2015
The Council's proportion (percentage) of the net pension liability	0.0222%	0.0209%
The Council's proportionate share of the net pension liability	\$ 123,848	\$ 77,670
The Council's covered employee payroll	\$ 301,770	\$ 257,684
The Council's proportionate share of the net pension's liability as a percentage of its covered employee payroll	41.04%	30.14%
Plan fiduciary net position as a percentage of the total pension liability	91.29%	93.98%

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

See Independent Auditor's Report and accompanying Note to Required Supplementary Information.

THE WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL
SCHEDULE OF CONTRIBUTIONS TO THE PERS

	Years Ended June 30			
	2016	2015	2014	2013
Statutorily required contribution	\$ 37,417	\$ 42,090	\$ 37,400	\$ 32,210
Contributions in relation to the statutorily required contribution	<u>(37,417)</u>	<u>(42,090)</u>	<u>(37,400)</u>	<u>(32,210)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
The Council's covered employee payroll	\$ 277,162	\$ 301,770	\$ 257,684	\$ 232,969
Contributions as a percentage of covered-employee payroll	13.50%	13.95%	14.51%	13.83%

See Independent Auditor's Report and accompanying Note to Required Supplementary Information.

THE WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

1 - TREND INFORMATION PRESENTED

The accompanying schedules of the Council's proportionate share of the net pension liability and contributions to PERS are required supplementary information to be presented for 10 years. However, until a full 10 year trend is compiled, information is presented in the schedules for those years for which information is available.

2 - PLAN AMENDMENT

The PERS was amended to make changes which apply to new employees hired on or after July 1, 2015 as follows:

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

3 - CHANGES IN ASSUMPTIONS

An experience study, which was based on the years 2009 through 2014, was completed prior to the 2015 actuarial valuation. As a result, several assumptions were changed for the actuarial valuation for the year ending June 30, 2015 as follows:

	2015	2014
Projected salary increases:		
State	3.0-4.6%	4.25-6.0%
Nonstate	3.35-6.0%	4.25-6.0%
Inflation rate	1.9%	2.2%
Mortality rates	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA Healthy females - 101% of RP-2000 Non-Annuitant, Scale AA Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA Disabled females - 107% of RP-2000 Disabled Annuitant, Scale AA	Healthy males - 1983 GAM Healthy females - 1971 GAM Disabled males - 1971 GAM Disabled females - Revenue ruling 96-7
Withdrawal rates		
State	1.75-35.1%	1 - 26%
Non-state	2-35.8%	2 - 31.2%
Disability rates	0 - .675%	0 - .8%