



# **WV WATER DEVELOPMENT AUTHORITY FY 2018 ANNUAL REPORT**

**James C. Justice, II  
Governor**

**Marie Prezioso  
Executive Director**

**Issued November, 2018**

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



WEST VIRGINIA  
**Water Development Authority**

James C. Justice, II  
Governor

# ANNUAL REPORT FISCAL YEAR 2018

## BOARD

James C. Justice, II  
Chairman

Michael F. Duplaga  
Vice Chairman

John M. Miller  
Member

Gary R. Sutphin  
Member

Mike E. Jones  
Member

Robert Decrease  
Ex Officio Member

Kathy Emery  
Ex Officio Member

## Authority

Marie L. Prezioso  
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 and the Drinking Water Treatment Revolving Fund. The WDA is provides administrative oversight for the Clean 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, 2018 the WDA had a staff of thirteen. 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 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, 2018, there were \$135 million in projects that were partially funded and \$451 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.

## **OBJECTIVES (continued)**

- Provide Secondary Market Disclosure and Reporting and other information to rating agencies and bond insurers.
- 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, 2018, total loans outstanding were \$193 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.

## **RESPONSIBILITIES (Continued)**

- Working with Local Governmental Agencies on project development and funding solutions.
- 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, 2018, which total \$149 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, 2018, which total \$500 million for water/wastewater and \$91 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

## RESPONSIBILITIES (Continued)

- accounting firm.
- Maintaining bonds, notes, bond transcripts and project-related files.
- 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 44 Years of Service 1974 – 2018.**
- Closed 68 loans and grants totaling \$103 million this year to communities for water, wastewater and economic development projects.
- Provided servicing for 865 loans (local bonds of communities) outstanding as of June 30, 2018 totaling \$1.545 billion.
- Acted in a fiduciary capacity for funding of loans and grants in excess of \$1.865 billion and continued to meet the challenge of enhancing and creating adequate infrastructure for the citizens of West Virginia.
- Refunded two bonds resulting in a savings of \$8,234,551 over the remaining life of the refunding bonds.

## PROGRAMS

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

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



## **DEBT ADMINISTRATION**

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

By statute, the maximum amount of bonds the WDA is authorized to have outstanding includes debt issued for the WDA and by the WDA on behalf of the West Virginia Infrastructure and Jobs Development Council. The amount of bonds or notes outstanding may not exceed \$500 million at any time; provided that before the WDA issues bonds or notes in excess of \$440 million, the State Legislature must pass a resolution authorizing this action. 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 \$333 million in revenue and refunding bonds outstanding, including \$163 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, 2018, DEP had been awarded thirty capitalization grant awards for the CWSRF from the EPA totaling \$685 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 \$125 million in matching funds, of which \$106 million has been contributed by the IJDC.

The WDA coordinates the initial Local Governmental Agency bond financing process 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, 2018, the Bureau for Public Health (“BPH”) had been awarded twenty-two capitalization grant awards from the EPA totaling \$202 million, one of those grant awards being a Stimulus Grant, of which \$152 million was allocated to the DWTRF and \$50.2 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 \$36.5 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,

## **WEST VIRGINIA INFRASTRUCTURE FUND (continued)**

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 \$360.5 million in infrastructure revenue and refunding bonds that have been issued, including the Chesapeake Bay/Greenbrier Watershed bonds, \$163 million are outstanding.

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



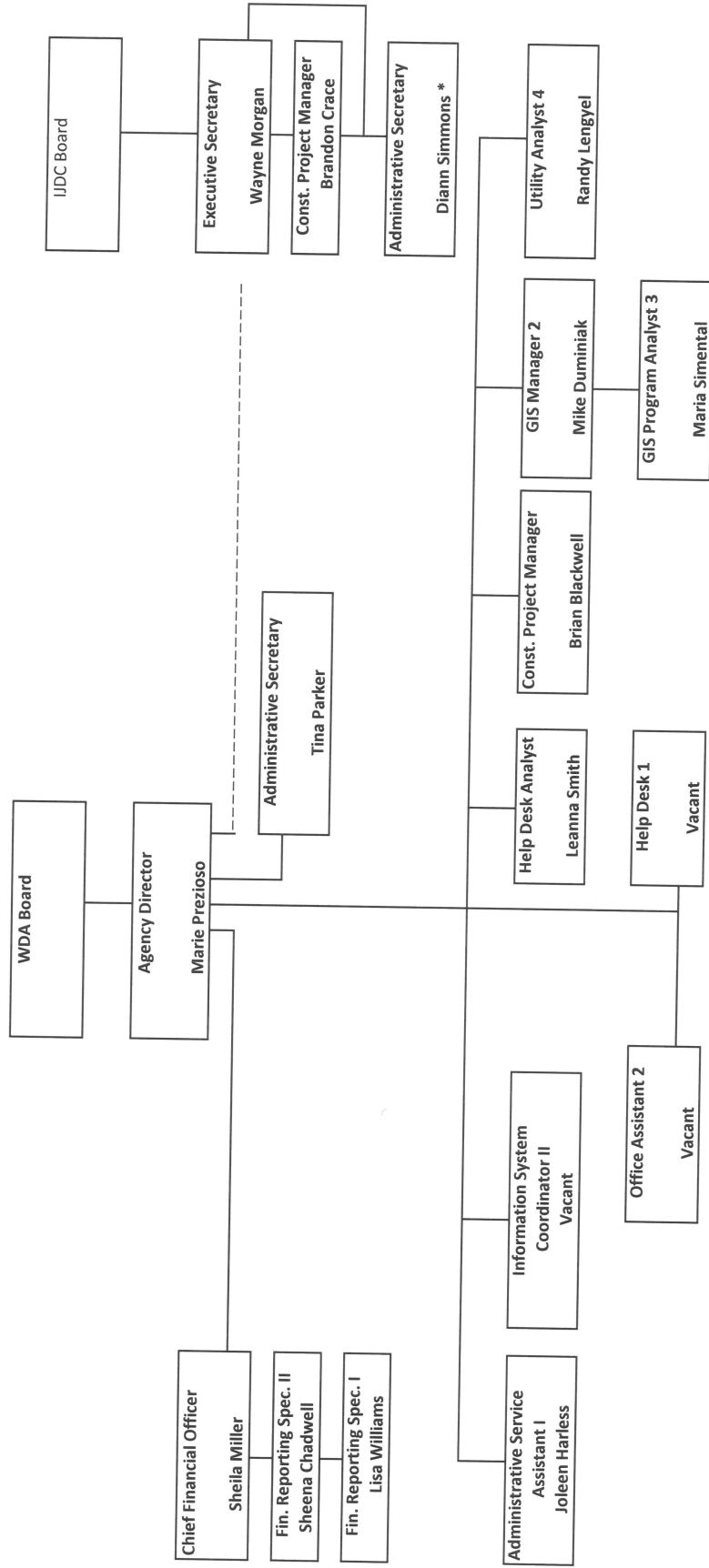
**WEST VIRGINIA**

**Water Development Authority**

*Celebrating 44 Years of Service 1974-2018*

# APPENDIX A

## ORGANIZATIONAL CHART



\*Position filled 9/29/2018



**WEST VIRGINIA**

**Water Development Authority**

*Celebrating 44 Years of Service 1974-2018*

## APPENDIX B

WEST VIRGINIA WATER  
DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS  
WITH INDEPENDENT  
AUDITORS' REPORT

**WEST VIRGINIA  
WATER DEVELOPMENT AUTHORITY**

**FINANCIAL REPORT**

**June 30, 2018**

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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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2018, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7, the schedule of the proportionate share of the net pension liability, the schedule of contributions to the PERS, the schedule of the proportionate share of the net OPEB liability, and the schedule of contributions to the RHBT on pages 40 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia  
October 9, 2018

**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, 2018, 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 \$5.2 million or 2%. Deferred outflows of resources decreased by \$768 thousand or 9%. There was a decrease in total liabilities of \$9 million or 5%. Deferred inflows of resources increased \$711 thousand. Total net position increased \$2.6 million or approximately 4%.

(Continued)

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

**FINANCIAL HIGHLIGHTS (Continued)**

- Total revenues decreased \$328 thousand or approximately 3%. This was primarily due to a decrease in charges for services of \$658 thousand offset by an increase in interest and investment revenue of \$318 thousand, as well as an increase in other revenue of \$12 thousand.
- Total expenses decreased \$1.4 million or 12%. This was primarily the combined result of a \$760 thousand decrease in interest expense and a \$605 thousand decrease in operating expenses.

**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**

	2018 WDA	2017 WDA	Increase (Decrease)
<b>Assets</b>			
Current assets	\$ 39,904,500	\$ 36,934,798	\$ 2,969,702
Non current assets	202,941,152	211,126,678	(8,185,526)
<b>Total assets</b>	<b>\$ 242,845,652</b>	<b>\$ 248,061,476</b>	<b>\$ (5,215,824)</b>
<b>Deferred outflows of resources</b>			
Deferred loss on bond refundings	\$ 7,974,054	\$ 8,617,780	\$ (643,726)
Deferred outflows of resources from OPEB amounts	17,523	-	17,523
Deferred outflows of resources from pension amounts	77,174	219,002	(141,828)
<b>Total deferred outflows of resources</b>	<b>\$ 8,068,751</b>	<b>\$ 8,836,782</b>	<b>\$ (768,031)</b>
<b>Liabilities</b>			
Current liabilities	\$ 11,096,791	\$ 10,675,004	\$ 421,787
Other accrued benefits	-	225,778	(225,778)
Net OPEB Liability	158,520	-	158,520
Net Pension Liability	164,270	364,905	(200,635)
Assets held on behalf of others	-	206,000	(206,000)
Long-term debt outstanding	171,084,965	180,309,407	(9,224,442)
<b>Total liabilities</b>	<b>\$ 182,504,546</b>	<b>\$ 191,781,094</b>	<b>\$ (9,276,548)</b>
<b>Deferred inflows of resources</b>			
Deferred gain on refunding	\$ 596,143	\$ -	\$ 596,143
Deferred inflows of resources from OPEB amounts	60,769	-	60,769
Deferred inflows of resources from pension amounts	91,488	37,887	53,601
<b>Total deferred inflows of resources</b>	<b>\$ 748,400</b>	<b>\$ 37,887</b>	<b>\$ 710,513</b>
<b>Net position</b>			
Net investment in capital assets	\$ 4,559,902	\$ 5,411,424	\$ (851,522)
Restricted	23,892,386	26,298,886	(2,406,500)
Unrestricted	39,209,169	33,368,967	5,840,202
<b>Total net position</b>	<b>\$ 67,661,457</b>	<b>\$ 65,079,277</b>	<b>\$ 2,582,180</b>

(Continued)

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

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

**Total assets** decreased \$5.2 million or 2%. Decreases to assets were the result of the use of assets to fund interest expense of \$7.2 million on bonds payable, scheduled principal payments on bonds payable of \$8.4 million, and general and administrative expenses of \$1.4 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 \$11.8 million and interest on investments of \$590 thousand. During the year, the Authority disbursed \$260 thousand in loans from unrestricted resources available to the authority.

**Deferred Outflows of Resources** decreased by \$768 thousand which was the result of current year amortizations of loss on refundings in the amount of \$644 thousand, and a reduction of the deferred outflow of resources for pension expense and pension contributions in the amount of \$142 thousand, which is explained further in Note 11. An increase in the deferred outflow of resources for OPEB in the amount of \$18 thousand offset these decreases due to the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which is explained further in Note 12.

**Total liabilities** decreased approximately \$9 million or approximately 5%. The majority of the decrease was in revenue bonds payable, which are presented on the balance sheet net of unamortized premiums.

**Deferred Inflows of Resources** increased \$711 thousand due to a \$596 thousand gain on refundings from the Loan Program IV bond refunding, a \$54 thousand increase due to current year pension activity and an additional deferred inflow of resources from OPEB of \$61 thousand due to the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

**Unrestricted net position** increased \$5.8 million, primarily explained by the combined result of \$3.5 million net income in unrestricted accounts, a transfer of \$2.7 million from restricted to unrestricted funds, and a \$465 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 \$209 thousand and a transfer from restricted liabilities of \$599 thousand for the current portion of revenue bonds.

**Restricted net position** decreased \$2.4 million primarily due to the transfer of \$465 thousand from the restricted portion of revenue bonds receivable to current assets, the transfer of \$564 thousand from the restricted portion of supplemental bonds receivable to current assets, and the transfer of \$2.7 million from restricted to unrestricted funds, offset by the transfer of \$599 thousand for the current portion of revenue bonds payable and the gain of \$604 thousand for the refunding of the Series 2005 A-IV bonds and Series 2005 B-IV bonds.

(Continued)

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

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

**Table 2  
Changes in Net Position**

	2018 WDA	2017 WDA	Increase (Decrease)
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 11,795,545	\$ 12,453,415	\$ (657,870)
Other	238,920	227,361	11,559
<b>Total operating revenues</b>	<b>12,034,465</b>	<b>12,680,776</b>	<b>(646,311)</b>
<b>Nonoperating revenues:</b>			
Interest and investment revenue, net of arbitrage	590,450	272,082	318,368
<b>Total revenues</b>	<b>12,624,915</b>	<b>12,952,858</b>	<b>(327,943)</b>
<b>Expenses:</b>			
Operating expenses	2,813,226	3,417,997	(604,771)
Nonoperating expenses:			
Interest expense	7,235,194	7,995,300	(760,106)
<b>Total expenses</b>	<b>10,048,420</b>	<b>11,413,297</b>	<b>(1,364,877)</b>
<b>Change in net position</b>	<b>2,576,495</b>	<b>1,539,561</b>	<b>1,036,934</b>
<b>Beginning net position</b>	<b>65,079,277</b>	<b>63,539,716</b>	<b>1,539,561</b>
<b>Cumulative effect of change in accounting principal, Beginning net position Restated</b>	<b>5,685</b>	-	<b>5,685</b>
<b>Ending net position</b>	<b>\$ 67,661,457</b>	<b>\$ 65,079,277</b>	<b>\$ 2,582,180</b>

**Charges for services** decreased \$658 thousand. This is primarily due to closing only three loans during the current year and to lower interest rates on loans already in the portfolio.

**Other** increased \$12 thousand primarily due to an increase in administrative fees as well as an increase in miscellaneous income.

**Interest and investment revenue, net of arbitrage** increased \$318 thousand due to higher short term interest rates available to the Authority from period to period on comparable increased asset balances, as well as adding longer term investments to the portfolio with higher interest rates.

**Operating expenses** decreased \$605 thousand from the prior year. The decrease in operating expense is primarily due to reductions in contractual and professional services of \$109 thousand, computer services of \$27 thousand, telecommunications expense of \$24 thousand, legal expense of \$64 thousand, and depreciation expense of \$96 thousand.

(Continued)

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

**DEBT ADMINISTRATION**

As a financing entity, the business of the Authority is debt issuance and administration, including servicing. By statute, the maximum amount of bonds the Authority is authorized to have outstanding includes debt issued for the Authority and by the Authority on behalf of the West Virginia Infrastructure and Jobs Development Council. While the redemption of bonds is economically prudent because of the resulting debt service savings, any reduction in the liability for long-term debt enables the Authority to manage debt capacity for future needs as well as for new programs. The Authority, therefore, continues to monitor its long-term outstanding debt for prepayment and refunding opportunities for debt service savings. At year end, the Authority had \$170 million in revenue and refunding bonds outstanding versus \$180 million in the prior year, a decrease of approximately 6%.

As of June 30, 2018, the 2012 Series A-I and B-I, 2012 Series A-II and B-II, 2013 Series A-II, 2016 Series A-II, and 2012 Series A-III and B-III had a Moody's rating of A1 and a Fitch rating of A+.

As of June 30, 2018, the 2018 Series A-IV, had a Standard & Poor's rating of AA-.

The Authority's underlying rating of AA- from Standard & Poor's reflects the State's moral obligation, which is one full category below the State's A 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, 2013 Series, and 2016 Series of refunding bonds were issued without an insurance policy.

**ECONOMIC FACTORS THAT MAY AFFECT THE AUTHORITY**

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

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**STATEMENT OF NET POSITION**

**June 30, 2018**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 28,273,645
Receivables:	
Revenue bonds, net of unamortized discount of \$43,329	7,932,753
Supplemental revenue bonds	563,871
Interest	2,870,121
Administrative fees	1,668
Due from other agencies	258,783
Total unrestricted current assets	39,900,841
Restricted current assets:	
Prepaid insurance	3,659
Total current assets	39,904,500

**NONCURRENT ASSETS**

Revenue bonds	9,205,119
Investments	1,200,000
Capital assets, net	4,559,902
Total unrestricted noncurrent assets	14,965,021
Restricted assets:	
Cash and cash equivalents	10,466,293
Investments	3,468,743
Receivables:	
Revenue bonds, net of unamortized discount of \$836,333	169,718,654
Supplemental revenue bonds	4,241,909
Prepaid insurance	80,532
Total restricted noncurrent assets	187,976,131
Total assets	\$ 242,845,652

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred loss on bond refundings	\$ 7,974,054
Deferred outflows of resources from OPEB amounts	17,523
Deferred outflows of resources from pension amounts	77,174
Total deferred outflows of resources	\$ 8,068,751

(Continued)



**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**STATEMENT OF NET POSITION**

**(Continued)**

**June 30, 2018**

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable	\$ 10,143
Current portion of revenue bonds payable, including unamortized net premium of \$712,093	9,681,094
Accrued interest payable	<u>1,405,554</u>
Total current liabilities	<u>11,096,791</u>

**NONCURRENT LIABILITIES**

Accrued employee benefits	50,014
Net OPEB liability	158,520
Net pension liability	164,270
Liabilities payable from restricted assets: Noncurrent portion of revenue bonds payable, including unamortized net premium of \$9,892,952	<u>171,034,951</u>
Total noncurrent liabilities	<u>171,407,755</u>

Total liabilities	<u><u>\$ 182,504,546</u></u>
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**DEFERRED INFLOWS OF RESOURCES**

Deferred gain on refunding	\$ 596,143
Deferred inflows of resources from OPEB amounts	60,769
Deferred inflows of resources from pension amounts	91,488
Total deferred inflows of resources	<u><u>\$ 748,400</u></u>

**NET POSITION**

Restricted	\$ 23,892,386
Unrestricted	39,209,169
Net investment in capital assets	<u>4,559,902</u>
Total net position	<u><u>\$ 67,661,457</u></u>

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

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**

**Year Ended June 30, 2018**

<b>OPERATING REVENUES</b>	
Charges for services	\$ 11,795,545
Miscellaneous	<u>238,920</u>
Total operating revenues	<u>12,034,465</u>
<b>OPERATING EXPENSES</b>	
Depreciation and amortization	997,543
General and administrative	1,398,842
Bond issuance costs	<u>416,841</u>
Total operating expenses	<u>2,813,226</u>
Operating income	<u>9,221,239</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest and investment revenue	590,450
Interest expense	<u>(7,235,194)</u>
Total nonoperating expenses	<u>(6,644,744)</u>
CHANGE IN NET POSITION	2,576,495
Total net position, beginning of year	65,079,277
Cumulative effect of change in accounting principle	<u>5,685</u>
Total net position, beginning of year, as restated	<u>65,084,962</u>
Total net position, end of year	<u><u>\$ 67,661,457</u></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, 2018**

**OPERATING ACTIVITIES**

Receipts of principal on bonds receivable	\$ 8,125,545
Receipts of interest on bonds receivable	12,095,261
Receipts of administrative fees on bonds receivable	238,922
Receipts of reimbursements from other agencies	861,650
Disbursements from issuance of bonds receivable	(263,052)
Disbursements of general and administrative expense	(1,406,668)
Disbursements on behalf of employees	(571,693)
Disbursements on behalf of other agencies	(919,336)
Net cash provided by operating activities	18,160,629

**CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition of capital assets	(139,269)
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**NONCAPITAL FINANCING ACTIVITIES**

Proceeds from sale of revenue bonds	42,048,469
Principal paid on revenue and refunding bonds	(49,195,000)
Interest paid on revenue and refunding bonds	(7,381,670)
Net cash used in noncapital financing activities	(14,528,201)

**INVESTING ACTIVITIES**

Proceeds from sale of investments	27,562
Investment earnings	514,655
Net cash used in investing activities	542,217

Net increase in cash and cash equivalents	4,035,376
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CASH AND CASH EQUIVALENTS, beginning	34,704,562
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CASH AND CASH EQUIVALENTS, ending	\$ 38,739,938
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Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 9,221,239
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization expense	997,543
Pension expense	52,159
OPEB expense	9,191
OPEB contribution support	(9,995)
Changes in operating accounts:	
Due from other agencies	(63,371)
Prepaid insurance	(85,400)
Supplemental revenue bonds receivable	563,870
Revenue bonds receivable	7,249,277
Accrued interest receivable	349,063

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**STATEMENT OF CASH FLOWS**  
**(Continued)**  
**Year Ended June 30, 2018**

Administrative fees receivable	2
Accounts payable	(63,483)
Accrued employee benefits	15,423
Deferred outflows of resources due to pension contributions	(57,366)
Deferred outflows of resources due to OPEB contributions	<u>(17,523)</u>
Net cash provided by operating activities	<u><u>\$ 18,160,629</u></u>

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

# WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### Note 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.

### Note 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.

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 2. Significant Accounting Policies (Continued)**

Cash and cash equivalents

Cash and cash equivalents include deposits with the West Virginia Treasurer's office and investments with original maturities of less than ninety days and are carried at amortized costs.

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 benefits. A liability for vacation pay is accrued when earned.

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.

(Continued)

# WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### Note 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, 2018, 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 and OPEB.

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 gains on bond refundings as deferred inflows of resources and deferred inflows of resources related to pensions and OPEB.

#### Pension

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

#### Postemployment benefits other than pensions (OPEB)

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

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 2. Significant Accounting Policies (Continued)**

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.

**Note 3. Cumulative Effect of Adoption of Accounting Principle**

Effective July 1, 2017, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The Authority determined that it was not practical to restate all periods presented and has recorded the cumulative effect of the increase to beginning net position of implementing this change of \$5,685 as of July 1, 2017, which is the net OPEB liability of \$233,334 less deferred outflows of resources related to OPEB contributions of \$13,241 as of that date and the June 30, 2017 liability of \$225,778 for postemployment benefits reported in accordance with GASB Statement No. 45, which is superseded by GASB Statement No. 75. The Authority further determined that it was not practical to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to OPEB as of July 1, 2017 and these amounts are not reported.

**Note 4. Deposit and Investment Risk Disclosures**

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

Interest rate risk

As of June 30, 2018, the Authority had the following investments (which include certain cash equivalents) and maturities:

Type	Maturities (in Years)			
	Carrying Value	Less Than 1	1-5	6-10
U.S. Treasury	\$ 4,668,743	-	\$ 4,668,743	-
Money markets	38,654,980	38,654,980	-	-
	<u>\$ 43,323,723</u>	<u>\$ 38,654,980</u>	<u>\$ 4,668,743</u>	<u>-</u>

(Continued)



**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 4. Deposit and Investment Risk Disclosures (Continued)**

Interest rate risk (Continued)

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

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

Concentration of credit risk

As of June 30, 2018, 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	89%

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%

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 4. Deposit and Investment Risk Disclosures (Continued)**

Concentration of credit risk (Continued)

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

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

Credit Risk

The following table provides information on the credit ratings of the Authority's short-term investments as of June 30, 2018:

Security Type	Fitch	Moody's	Standard & Poors	Fair Value
Money Markets	AAAmmf	Aaa-mf	AAAM	<u>\$ 38,654,980</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 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.

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 4. Deposit and Investment Risk Disclosures (Continued)**

Custodial credit risk

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

Cash consisted of the following at June 30, 2018:

Operating cash on hand	\$ -
Cash on deposit with State Treasurer	<u>84,958</u>
Total	<u>\$ 84,958</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, 2018, is as follows:

Deposits:

Cash and cash equivalents as reported on the Statement of Net Position	\$ 28,273,645
Add: restricted cash and cash equivalents	10,466,293
Less: cash equivalents and restricted cash equivalents disclosed as investments	<u>(38,654,980)</u>
Total cash as disclosed in this Note	<u>\$ 84,958</u>

Investments:

Investments as reported on the Statement of Net Position	\$ 1,200,000
Add: restricted investments	3,468,743
Add: cash equivalents and restricted cash equivalents disclosed as investments	<u>38,654,980</u>
Total investments as disclosed in this Note	<u>\$ 43,323,723</u>

**Note 5. Investments Measured at Fair Value**

The Authority measures the investments listed below at fair value for financial reporting purposes. GAAP 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 GAAP.

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

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 5. Investments Measured at Fair Value (Continued)**

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.

U.S. Treasury investments are valued using the last reported sales prices quoted in active markets that can be accessed at the measurement date.

The table below summarizes the recurring fair value measurements of the investments in accordance with the fair value hierarchy levels as of June 30, 2018.

<u>Investment Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Treasury	\$ 4,668,743	\$ -	\$ -	\$ 4,668,743

**Note 6. Due From Other Agencies**

Certain agencies of the State were indebted to the Authority at June 30, 2018, in connection with services performed by the Authority on behalf of the agencies. Amounts due the Authority at June 30, 2018 are as follows:

West Virginia Infrastructure and Jobs Development Council, net	\$ 210,485
Department of Environmental Protection Clean Water State Revolving Fund	16,371
Bureau for Public Health Drinking Water Treatment Revolving Fund	<u>31,927</u>
	<u>\$ 258,783</u>

**Note 7. Revenue Bonds Receivable**

As of June 30, 2018, the face value of revenue bonds of municipalities, public service districts and other political subdivisions purchased with proceeds from Water Development Revenue Bonds was \$178,104,311. 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. As of June 30, 2018, the face value of supplemental bonds was \$9,205,119.

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 8. Capital Assets**

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Land	\$ 514,684	\$ -	\$ -	\$ 514,684
Construction work in progress	-	11,510	-	11,510
Total capital assets not being depreciated	<u>514,684</u>	<u>11,510</u>	<u>-</u>	<u>526,194</u>
Capital assets, being depreciated:				
Furniture and equipment	6,850,173	127,761	-	6,977,934
Building	4,100,298	-	-	4,100,298
Total capital assets, being depreciated	<u>10,950,471</u>	<u>127,761</u>	<u>-</u>	<u>11,078,232</u>
Less accumulated depreciation for:				
Furniture and equipment	5,547,961	888,286	-	6,436,247
Building	505,770	102,507	-	608,277
Total accumulated depreciation	<u>6,053,731</u>	<u>990,793</u>	<u>-</u>	<u>7,044,524</u>
Total capital assets, net	<u>\$ 5,411,424</u>	<u>\$ (851,522)</u>	<u>\$ -</u>	<u>\$ 4,559,902</u>

**Note 9. Debt Refundings**

On February 28, 2018, the Authority currently refunded two series of previously outstanding Loan Program IV bonds. Series 2018 A-IV, issued for \$31,520,000, with interest rates ranging from 2.5% to 5.0%, was used to refund \$31,575,000 of the remaining balance of the Authority's outstanding Series 2005 A-IV revenue bonds, with interest rates ranging from 4.375% to 5.0% and \$1,510,000 of the Authority's outstanding Series 2005 B-IV revenue bonds with interest rates originally ranging from 4.75% to 5.125%. The proceeds of \$34,087,469 (including net original issue premium of \$2,567,469) were used to pay \$362,889 in underwriting fees and other issuance costs relating to the refunding bond issue and to purchase United States Treasury obligations. Those securities were deposited in an irrevocable trust to provide for redemption of the bonds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of (\$542,749). This difference is being charged to interest expense through fiscal year 2045. The Authority completed the refunding to reduce its total debt service payments over the next 27 years by \$7,351,148 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4,899,316.

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 9. Debt Refundings (Continued)**

Series 2018 B-IV, a private placement, issued for \$7,961,000, with an interest rate of 3.5%, was used to refund \$ 7,675,000 of the remaining balance of the Authority's outstanding Series 2005 B-IV revenue bonds, with interest rates originally ranging from 4.750% to 5.125%. The proceeds of 7,961,000 were used to pay \$139,352 in issuance costs relating to the refunding bond issue and to purchase United States Treasury obligations.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of (\$61,268). This difference is being charged to interest expense through fiscal year 2036. The Authority completed the refunding to reduce its total debt service payments over the next 18 years by \$883,403 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$663,851.

**Note 10. Revenue Bonds Payable**

The following is a summary of the Authority's bond transactions for the year ended June 30, 2018:

Revenue bonds payable at June 30, 2017	\$ 179,825,000
Bonds issued during the year ended June 30, 2018	39,481,000
Bonds retired during the year ended June 30, 2018	(8,435,000)
Bonds refunded during the year ended June 30, 2018	<u>(40,760,000)</u>
 Revenue bonds payable at June 30, 2018	 \$ <u>170,111,000</u>

Revenue and refunding bonds outstanding at June 30, 2018, were as follows:

Series	Final Maturity	Interest Rates %	Balance
2012 AI	11/1/25	2.000-3.000	\$ 1,720,000
2012 B-I	11/1/26	3.000-4.500	11,170,000
2012 A-II	11/1/23	2.000-3.000	3,410,000
2012 B-II	11/1/33	2.000-4.000	11,875,000
2012 A-III	7/1/39	3.000-4.000	14,275,000
2012 B-III	7/1/40	2.000-3.750	8,670,000
2013 A-II	11/1/29	2.000-5.000	29,795,000
2016 A-II	11/1/39	2.000-5.000	49,715,000
2018 A-IV	11/1/44	2.500-5.000	31,520,000
2018 B-IV	11/1/35	3.500	<u>7,961,000</u>
			 \$ <u>170,111,000</u>

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 10. Revenue Bonds Payable (Continued)**

Loan Program I includes Series 2012 A-I and 2012 B-I Water Development Revenue Refunding Bonds. Loan Program II includes Series 2012 A-II, 2012 B-II, 2013 A-II, and 2016 A-II Water Development Revenue Refunding Bonds. Loan Program III includes Series 2012 A-III and 2012 B-III Water Development Revenue Refunding Bonds. Loan Program IV includes Series 2018 A-IV and 2018 B-IV Water Development Revenue Bonds.

Total future maturities of bond principal and interest on Authority indebtedness at June 30, 2018, are as follows:

**Loan Program I**

	Principal	Interest	Total
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	1,295,000	362,475	1,657,475
11/01/21	1,345,000	308,375	1,653,375
11/01/22	1,400,000	255,850	1,655,850
	<u>6,915,000</u>	<u>1,820,288</u>	<u>8,735,288</u>
11/01/23-11/01/26	<u>5,975,000</u>	<u>465,212</u>	<u>6,440,212</u>
	<u>\$ 12,890,000</u>	<u>\$ 2,285,500</u>	<u>\$ 15,175,500</u>

**Loan Program II**

	Principal	Interest	Total
11/01/18	\$ 5,100,000	\$ 3,784,150	\$ 8,884,150
11/01/19	5,225,000	3,623,175	8,848,175
11/01/20	5,420,000	3,432,475	8,852,475
11/01/21	5,605,000	3,218,075	8,823,075
11/01/22	5,850,000	2,973,300	8,823,300
	<u>27,200,000</u>	<u>17,031,175</u>	<u>44,231,175</u>
11/01/23-11/01/27	30,110,000	11,027,575	41,137,575
11/01/28-11/01/32	23,905,000	5,073,100	28,978,100
11/01/33-11/01/37	10,265,000	1,574,900	11,839,900
11/01/38-11/01/39	3,315,000	125,500	3,440,500
	<u>67,595,000</u>	<u>17,801,075</u>	<u>85,396,075</u>
	<u>\$ 94,795,000</u>	<u>\$ 34,832,250</u>	<u>\$ 129,627,250</u>

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 10. Revenue Bonds Payable (Continued)**

**Loan Program III**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/01/18	\$ 700,000	\$ 799,756	\$ 1,499,756
11/01/19	720,000	773,981	1,493,981
11/01/20	745,000	747,356	1,492,356
11/01/21	775,000	719,731	1,494,731
11/01/22	810,000	690,932	1,500,932
	<u>3,750,000</u>	<u>3,731,756</u>	<u>7,481,756</u>
11/01/23-11/01/27	4,435,000	3,043,141	7,478,141
11/01/28-11/01/32	5,205,000	2,244,700	7,449,700
11/01/33-11/01/37	6,205,000	1,225,656	7,430,656
11/01/38-11/01/40	3,350,000	156,563	3,506,563
	<u>19,195,000</u>	<u>6,670,060</u>	<u>25,865,060</u>
	<u>\$ 22,945,000</u>	<u>\$ 10,401,816</u>	<u>\$ 33,346,816</u>

**Loan Program IV**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/01/18	\$ 1,534,000	\$ 1,616,596	\$ 3,150,596
11/01/19	1,053,000	1,575,936	2,628,936
11/01/20	1,084,000	1,538,489	2,622,489
11/01/21	1,126,000	1,496,039	2,622,039
11/01/22	1,169,000	1,447,951	2,616,951
	<u>5,966,000</u>	<u>7,675,011</u>	<u>13,641,011</u>
11/01/23-11/01/27	6,327,000	6,491,756	12,818,756
11/01/28-11/01/32	7,396,000	4,981,536	12,377,536
11/01/33-11/01/37	8,052,000	3,150,864	11,202,864
11/01/38-11/01/42	8,075,000	1,428,581	9,503,581
11/01/43-11/01/44	3,665,000	134,035	3,799,035
	<u>33,515,000</u>	<u>16,186,772</u>	<u>49,701,772</u>
	<u>\$ 39,481,000</u>	<u>\$ 23,861,783</u>	<u>\$ 63,342,783</u>

(Continued)



**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 10. Revenue Bonds Payable (Continued)**

**Loan Program IV (Continued)**

Total all loan programs	\$170,111,000
Add: unamortized net premium	<u>10,605,045</u>
Total all programs, net	180,716,045
Less: current portion of revenue bonds payable	<u>9,681,094</u>
Noncurrent portion of revenue bonds payable	<u><u>\$171,034,951</u></u>

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, 2018, there are \$1,115,000 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, 2018, was \$8,435,000 and \$7,381,670, respectively, and principal payments and interest received on pledged notes receivable were \$8,125,545 and \$12,095,261, respectively, at June 30, 2018.

**Note 11. 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](http://www.wvretirement.com).

(Continued)

# WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### Note 11. Pension Plan (Continued)

#### *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. A member may retire with the pension reduced actuarially if the member is at least age 55 and has at least 10 years of contributory service, or at any age with 30 years of contributory service. For all employees hired July 1, 2015 and later, qualification for normal retirement is age 62 with 10 years of service. A member hired after July 1, 2015 may retire with the pension reduced actuarially if the member is between ages 60 and 62 with at least ten years of contributory service, between ages 57 and 62 with at least twenty years of contributory service, or between ages 55 and 62 with at least thirty years of contributory service. The straight-life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. For employees hired prior to July 1, 2015, average salary is the average of the 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 with at least ten years of contributory service, or age 63 with at least twenty years of contributory service.

#### *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 11.0%, 12.0%, and 13.5% for the years ended June 30, 2018, 2017, and 2016, respectively.

During the years ended June 30, 2018, 2017, and 2016, the Authority's contributions to PERS required and made were approximately \$57,366, \$63,388, and \$74,720, respectively.

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

At June 30, 2018, the Authority reported a liability of \$164,270 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2018 was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, rolled forward to the measurement date of June 30, 2017. 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, 2017. At June 30, 2017, the Authority's proportion was 0.038057 percent, which was a decrease of 0.001645 percent from its proportion measured as of June 30, 2016.

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 11. Pension Plan (Continued)**

For the year ended June 30, 2018, the Authority recognized pension expense of \$52,159. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 39,937
Changes in assumptions	-	8,520
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	5,189	42,668
Differences between expected and actual experience	14,619	363
The Authority's contributions made subsequent to the measurement date of June 30, 2017	57,366	-
Total	\$ 77,174	\$ 91,488

The amount of \$57,366 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, 2019. 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 ending June 30,

2019	\$	(26,432)
2020		(445)
2021		(10,307)
2022		(34,496)

*Actuarial Assumptions*

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

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

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

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 11. Pension Plan (Continued)**

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

The long-term expected rate of return on pension plan investments was determined using 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:

Asset Class	Target Allocation	Long-term Expected Rate of Return	Weighted Average Expected Real Rate of Return
US equity	27.5%	7.0%	1.92%
International equity	27.5%	7.7%	2.12%
Core fixed income	7.5%	2.7%	0.20%
High yield fixed income	7.5%	5.5%	0.41%
Real estate	10.0%	7.0%	0.70%
Private equity	10.0%	9.4%	0.94%
Hedge funds	10.0%	4.7%	0.47%
Total	100.00%		6.76%
Inflation (CPI)			1.90%
			8.66%

*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*

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 11. Pension Plan (Continued)**

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:

<i>Discount Rate</i>	<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	\$ 454,771	\$ 164,270	\$ 81,347

**Note 12. Other Postemployment Benefits**

*Plan description*

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

*Benefits provided*

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

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

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

**Note 12. Other Postemployment Benefits (Continued)**

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

*Contributions*

West Virginia Code section 5-16D-6 assigns to the PEIA Finance Board the authority to establish and amend contribution requirements of the plan members and the participating employers. Participating employers are required by statute to contribute at a rate assessed each year by the RHBT. The annual contractually required rate is the same for all participating employers. Employer contributions represent what the employer was billed during the respective year for their portion of the pay as you go premiums, commonly referred to as paygo, retiree leave conversion billings, and other matters, including billing adjustments. The annual contractually required per active policyholder per month rates for State non-general funded agencies and other participating employers effective June 30, 2018, 2017, and 2016, respectively, were:

	2018	2017	2017	2016
		1/1/17 - 6/30/17	7/1/17 - 12/31/17	
Paygo Premium	\$ 177	\$ 135	\$ 196	\$ 163

Contributions to the OPEB plan from the Authority were \$17,523, \$8,604, and \$19,152 for the years ended June 30, 2018, 2017, and 2016, respectively.

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

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

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

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

*Contributions by Nonemployer Contributing Entities in Special Funding Situations*

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 12. Other Postemployment Benefits (Continued)**

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

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

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

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

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

Authority's proportionate share of the net OPEB liability	\$ 158,520
State's special funding proportionate share of the net OPEB liability associated with the Authority.	<u>32,560</u>
Total portion of net OPEB liability associated with the Authority	<u>\$ 191,080</u>

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The Authority's proportion of the net OPEB liability was based on its proportionate share of employer and non-employer contributions to the OPEB Plan for the fiscal year ended on the measurement date. At June 30, 2017, the Authority's proportion was .006446548 percent, which is a decrease of .001873403 percent from its proportion measured as of June 30, 2016.

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 12. Other Postemployment Benefits (Continued)**

For the year ended June 30, 2018, the Authority recognized OPEB expense of \$9,191 and for support provided by the State under special funding situations revenue of \$9,995. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 531
Net difference between projected and actual earnings on OPEB plan investments	-	2,530
Changes in proportion and differences between Authority's contributions and proportionate share of contributions	-	57,708
Authority's contributions subsequent to the measurement date of June 30, 2017	17,523	-
<b>Total</b>	<b>\$ 17,523</b>	<b>\$ 60,769</b>

The amount of \$17,523 reported as deferred outflows of resources related to OPEB resulting from Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:	
2019	(\$16,314)
2020	(16,314)
2021	(16,314)
2022	(11,827)

*Actuarial assumptions*

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

Inflation	2.75%
Salary increases	Dependent upon pension system ranging from 3.00% to 6.50%, including inflation
Investment rate of return	7.15%, net of OPEB plan investment expense, including inflation

(Continued)



**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 12. Other Postemployment Benefits (Continued)**

Healthcare cost trend rates	Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.50% and 9.75% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax
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Actuarial cost method	Entry Age Normal Cost Method
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Amortization method	Level percentage of payroll over a 21 year closed period
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Remaining amortization period	21 years closed as of June 30, 2016
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Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and Teachers' Retirement System (TRS). RP-2000 Healthy Annuitant Mortality Table projected to 2025 with scale BB for West Virginia Death, Disability, and Retirement Fund (Troopers A) and West Virginia State Police Retirement System (Troopers B). Pre-Retirement: RP-2000 Non-Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and TRS. RP-2000 Non-Annuitant Mortality Table projected to 2020 with Scale BB for Troopers A and B.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010- June 30, 2015.

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

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

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 12. Other Postemployment Benefits (Continued)**

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

Discount rate

The discount rate used to measure the total OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions would be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. Future pre-funding assumptions include a \$30 million annual contribution from the State through 2037. Based on those assumptions, and that the Plan is expected to be fully funded by fiscal year ended June 30, 2036, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates. The discount rate used to measure the total OPEB liability at June 30, 2016 is a 0.45% increase from the June 30, 2015 valuation.

Other key assumptions

The projection assumes that the capped subsidy aggregate contribution limit of \$150 million for 2017 would increase by \$10 million per year on and after 2018. Additionally, the per member subsidy is projected to increase by at least 3.0% per year but no more than the healthcare trend inflation assumption such that the product of the projected subsidy and projected members is less than the projected aggregated capped costs; and the member's share of plan costs is expected remain stable as a percentage of total costs following the year that the program is fully funded. After 2035, the program is projected to be fully funded and the sponsor is assumed to contribute the residual portion of normal cost and operational expenses needed to maintain a funded ratio of 100% in future years. In addition, after 2035, the member's share of total plan costs is assumed to remain stable at approximately 61% of total plan costs. These assumptions produced per member annual capped subsidy increases of 3.0% per year from 2018 to 2023 and 4.5% per year after 2023.

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 12. Other Postemployment Benefits (Continued)**

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

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

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

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Authority's proportionate share of the net OPEB liability	\$ 184,578	\$ 158,520	\$ 136,858

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

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

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Authority's proportionate share of the net OPEB liability	\$ 133,159	\$ 158,520	\$ 189,538

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 13. General and Administrative Expenses**

General and administrative expenses for the year ended June 30, 2018, are as follows:

Personal services	\$ 557,898
Legal	62,579
Professional	219,720
Trustee	36,006
Employee benefits	62,247
Public employees insurance	60,288
Unemployment Compensation	7,632
Office supplies/printing	54,462
Advertising	5,375
Repairs and maintenance	47,647
Travel	7,051
Utilities	32,425
Telecommunications	31,242
Payroll taxes	14,486
Computer supplies/services	154,287
Janitorial	25,296
Miscellaneous	1,638
Rental	6,517
Administrative	2,790
Insurance	6,877
Training and development	<u>2,379</u>
	<u>\$ 1,398,842</u>

**Note 14. Risk Management**

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

The Authority has obtained coverage for job-related injuries of employees and health coverage for its employees 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, 2018.

# WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### Note 15. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

The GASB issued **Statement No. 83**, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

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

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

### Note 16. Uncertainty

The Authority has cooperated with a State of West Virginia legislative oversight commission request for information related to certain administrative expenses for the period July 1, 2011 to March 17, 2017. 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.

### Note 17. 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 A-I and 2012 B-I Water Development Revenue Refunding Bonds. Loan Program II includes Series 2016 A-II Water Development Revenue Refunding Bonds, 2012 A-II, 2012 B-II, and 2013 A-II Water Development Revenue Refunding Bonds. Loan Program III includes Series 2012 A-III and 2012 B-III Water Development Revenue Refunding Bonds. Loan Program IV includes Series 2018 A-IV and 2018 B-IV Water Development Revenue Bonds.

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 17. Segement Information (Continued)**

	<u>Loan Program I</u>	<u>Loan Program II</u>	<u>Loan Program III</u>
<b>ASSETS</b>			
Current - unrestricted	\$ 3,470,533	\$ 8,219,930	\$ 684,722
Noncurrent - unrestricted	-	-	-
Restricted - current and noncurrent	14,916,082	103,747,210	24,472,896
Capital assets, net	-	-	-
Total assets	<u>\$ 18,386,615</u>	<u>\$ 111,967,140</u>	<u>\$ 25,157,618</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pension and OPEB	\$ -	\$ -	\$ -
Deferred loss on bond refundings	2,101,203	5,544,729	328,122
Total deferred outflows	<u>\$ 2,101,203</u>	<u>\$ 5,544,729</u>	<u>\$ 328,122</u>
<b>LIABILITIES</b>			
Current	\$ 1,903,879	\$ 6,161,835	\$ 1,117,213
Long-term	12,585,471	95,597,757	22,465,360
Total liabilities	<u>\$ 14,489,350</u>	<u>\$ 101,759,592</u>	<u>\$ 23,582,573</u>
<b>DEFERRED INFLOWS</b>			
Deferred inflows of resources related to pension and OPEB	\$ -	\$ -	\$ -
Deferred gain on refunding	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>NET POSITION</b>			
Restricted	\$ 4,431,814	\$ 13,694,182	\$ 2,335,658
Unrestricted	1,566,654	2,058,095	(432,491)
Investment in capital assets	-	-	-
Total net position	<u>\$ 5,998,468</u>	<u>\$ 15,752,277</u>	<u>\$ 1,903,167</u>
<b>OPERATING REVENUE</b>			
Charges for services and miscellaneous revenue	\$ 1,263,117	\$ 6,568,164	\$ 1,478,320
<b>OPERATING EXPENSES</b>			
Depreciation and amortization	\$ -	\$ -	\$ -
General and administrative	-	-	-
Bond issuance cost	-	-	-
Allocation of general and administrative	643,925	4,434,971	1,027,845
<b>OPERATING INCOME</b>	<u>\$ 619,192</u>	<u>\$ 2,133,193</u>	<u>\$ 450,475</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Interest and investment revenue	\$ 20,774	\$ 104,329	\$ 37,098
Interest expense	(598,586)	(3,848,962)	(816,763)
Transfers (net)	169,255	3,084,566	(1,724,498)
Change in net position	210,635	1,473,126	(2,053,688)
Beginning net position	5,787,833	14,279,151	3,956,855
Ending net position	<u>\$ 5,998,468</u>	<u>\$ 15,752,277</u>	<u>\$ 1,903,167</u>
Net cash provided by (used in):			
Operating activities	\$ 2,100,862	\$ 9,105,333	\$ (782,056)
Capital and related financing activities	-	-	-
Noncapital financing activities	(2,109,775)	(9,173,476)	(1,498,406)
Investing activities	23,632	115,280	36,418
Beginning cash and cash equivalents	1,143,173	6,473,760	5,080,082
Ending cash and cash equivalents	<u>\$ 1,157,892</u>	<u>\$ 6,520,897</u>	<u>\$ 2,836,038</u>

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 17. Segement Information (Continued)**

<b>ASSETS</b>	<u>Loan Program IV</u>	<u>Supplemental</u>	<u>Total</u>
Current - unrestricted	\$ 25,871	\$ 27,499,785	\$ 39,900,841
Noncurrent - unrestricted	-	10,405,119	10,405,119
Restricted - current and noncurrent	40,601,692	4,241,910	187,979,790
Capital assets - net	-	4,559,902	4,559,902
Total assets	<u>\$ 40,627,563</u>	<u>\$ 46,706,716</u>	<u>\$ 242,845,652</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pension and OPEB	\$ -	\$ 94,697	\$ 94,697
Deferred loss on bond refundings	-	-	7,974,054
Total deferred outflows	<u>\$ -</u>	<u>\$ 94,697</u>	<u>\$ 8,068,751</u>
<b>LIABILITIES</b>			
Current	\$ 1,903,721	\$ 10,143	\$ 11,096,791
Long-term	40,386,363	372,804	171,407,755
Total liabilities	<u>\$ 42,290,084</u>	<u>\$ 382,947</u>	<u>\$ 182,504,546</u>
<b>DEFERRED INFLOWS</b>			
Deferred inflows of resources related to pension and OPEB	\$ -	\$ 152,257	\$ 152,257
Deferred gain on refunding	596,143	-	596,143
	<u>\$ 596,143</u>	<u>\$ 152,257</u>	<u>\$ 748,400</u>
<b>NET POSITION</b>			
Restricted	\$ (380,814)	\$ 3,811,546	\$ 23,892,386
Unrestricted	(1,877,850)	37,894,761	39,209,169
Investment in capital assets	-	4,559,902	4,559,902
Total net position	<u>\$ (2,258,664)</u>	<u>\$ 46,266,209</u>	<u>\$ 67,661,457</u>
<b>OPERATING REVENUE</b>			
Charges for services and miscellaneous revenue	\$ 2,130,822	\$ 594,042	\$ 12,034,465
<b>OPERATING EXPENSES</b>			
Depreciation and amortization	\$ 6,752	\$ 990,791	\$ 997,543
General and administrative	-	1,398,842	1,398,842
Bond issuance cost	416,841	-	416,841
Allocation of general and administrative	1,854,278	(7,961,019)	-
<b>OPERATING INCOME</b>	<u>\$ (147,049)</u>	<u>\$ 6,165,428</u>	<u>\$ 9,221,239</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Interest and investment revenue	\$ 6,484	\$ 421,765	\$ 590,450
Interest expense	(1,970,883)	-	(7,235,194)
Transfers (net)	294,619	(1,823,942)	-
Change in net position	(1,816,829)	4,763,251	2,576,495
Beginning net position	(441,835)	41,502,958	65,084,962
Ending net position	<u>\$ (2,258,664)</u>	<u>\$ 46,266,209</u>	<u>\$ 67,661,457</u>
Net cash provided by (used in):			
Operating activities	\$ 1,742,326	\$ 5,994,164	\$ 18,160,629
Capital and related financing activities	-	(139,269)	(139,269)
Noncapital financing activities	(1,746,544)	-	(14,528,201)
Investing activities	6,644	360,243	542,217
Beginning cash and cash equivalents	54,592	21,952,955	34,704,562
Ending cash and cash equivalents	<u>\$ 57,018</u>	<u>\$ 28,168,093</u>	<u>\$ 38,739,938</u>

**REQUIRED SUPPLEMENTARY INFORMATION**



**THE WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

**Public Employees Retirement System Plan**

	Year Ended June 30,			
	2018	2017	2016	2015
Authority's proportion (percentage) of the net pension liability	0.038057%	0.039702%	0.043182%	0.040945%
Authority's proportionate share of the net pension liability	\$ 164,270	\$ 364,905	\$ 241,080	\$ 151,290
Authority's covered payroll	\$ 530,764	\$ 553,481	\$ 587,420	\$ 507,753
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	30.950%	65.929%	41.040%	29.796%
Plan fiduciary net position as a percentage of the total pension liability	93.67%	86.11%	91.29%	93.98%

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

**THE WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**SCHEDULE OF CONTRIBUTIONS TO THE PERS**

	Year Ended June 30,					
	2018	2017	2016	2015	2014	2013
Statutorily required contribution	\$ 57,366	\$ 63,388	\$ 74,720	\$ 81,986	\$ 72,599	\$ 62,525
Contributions in relation to the statutorily required contribution	\$ (57,366)	\$ (63,388)	\$ (74,720)	\$ (81,986)	\$ (72,599)	\$ (62,525)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered payroll	\$ 530,152	\$ 530,764	\$ 553,481	\$ 587,420	\$ 507,753	\$ 463,946
Contributions as a percentage of covered payroll	11.00%	12.00%	13.50%	14.00%	14.30%	13.48%

**THE WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**

**Public Employees Retirement Insurance Plan**

	Year Ended June 30, 2018
Authority's proportion (percentage) of the net OPEB liability	<u>0.0064466%</u>
Authority's proportionate share of the net OPEB liability	\$ 158,520
State's proportionate share of the net OPEB liability associated with the Authority	<u>32,560</u>
Total proportionate share of the net OPEB liability associated with the Authority	<u>\$ 191,080</u>
Authority's covered payroll	\$ 214,103
Authority's proportionate share of the net OPEB liability as a percentage of its covered payroll	74.040%
Plan fiduciary net position as a percentage of the total OPEB liability	25.10%

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 OPEB**

	Year Ended June 30,		
	2018	2017	2016
Statutorily required contribution	\$ 17,523	\$ 8,604	\$ 19,152
Contributions in relation to the statutorily required contribution	\$ (17,523)	\$ (8,604)	\$ (19,152)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Authority's covered payroll	\$ 111,957	\$ 214,103	\$ 247,855
Contributions as a percentage of covered payroll	15.65%	4.02%	7.73%

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

#### **Note 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.

#### **Note 2. OPEB Changes in Assumptions**

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

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

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

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

#### **Note 3. Pension Plan Amendments**

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. A member may retire with the pension reduced actuarially if the member is at least age 55 and has at least 10 years of contributory service, or at any age with 30 years of contributory service. For employees hired July 1, 2015 and later, qualification for normal retirement is 62 with 10 years of service. A member hired after July 1, 2015 may retire with the pension reduced actuarially if the member is between ages 60 and 62 with at least ten years of contributory service, between ages 57 and 62 with at least twenty years of contributory service, or between ages 55 and 62 with at least thirty years of contributory service.

(Continued)

**WEST VIRGINIA WATER DEVELOPMENT AUTHORITY**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**Note 3. Pension Plan Amendments**

- The straight life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. For employees hired prior to July 1, 2015, average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. For all employees hired July 1, 2015 and later average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings.
- For employees hired prior to July 1, 2015, terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired July 1, 2015 and later, this age increases to 64 with at least ten years of contributory service, or age 63 with at least twenty years of contributory service.
- For all employees hired prior to July 1, 2015, employees are required to contribute 4.5% of annual earnings. All employees hired July 1, 2015 and later, are required to contribute 6% of annual earnings.

**Note 4. Pension Plan Assumptions**

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

	2015-2017	2014
Projected salary increases:		
State	3.0-4.6%	4.25-6.0%
Nonstate	3.35-6.0%	4.25-6.0%
Inflation rate	3.0% (2016); 1.9% (2015)	2.2%
Mortality rates	Active-RP- 2000 Non-Annuitant tables, Scale AA fully generational Healthy males - 110% of RP- 2000 Non-Annuitant, Scale AA fully generational 2000 Non-Annuitant, Scale AA Healthy females - 101% of RP- 2000 Non-Annuitant, Scale AA fully generational Disabled males – 96% of RP-2000 Disabled Annuitant, Scale AA fully generational Disabled females -107% of RP-2000 Disabled Annuitant, Scale AA fully generational	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%



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

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Virginia Water Development Authority (the Authority), as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 9, 2018.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

A handwritten signature in black ink that reads "Brown, Edwards & Company, L.L.P." in a cursive script.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia  
October 9, 2018





**WEST VIRGINIA**

**Water Development Authority**

*Celebrating 44 Years of Service 1974-2018*

## APPENDIX C

### WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

### FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

**WEST VIRGINIA DRINKING WATER TREATMENT  
REVOLVING FUND**

**FINANCIAL REPORT**

**Year Ended June 30, 2018**

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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, 2018, 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 West Virginia Drinking Water Treatment Revolving Fund, as of June 30, 2018, and the changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As discussed in Note 2, the financial statements present only the West Virginia Drinking Water Treatment Revolving Fund and do not purport to, and do not present fairly the financial position of the State of West Virginia as of June 30, 2018, the changes in financial position, or, where applicable, 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 4 through 8 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 20 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 21 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 10, 2018, 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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia  
October 10, 2018

# 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, 2018. Please read it in conjunction with the Fund's financial statements, which begin on page 9.

### 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 \$13.2 million in ARRA principal forgiveness loans have been written off against the existing allowance for principal forgiveness since the inception of the program.
- 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 \$654 thousand. The Fund's change in net position, therefore, consists of total revenues, less operating expenses and capital grants and contributions.
- The Fund's assets increased by \$4,963,555 or about 3%. This is largely due to an increase in the investment of funds available for projects. The Fund's liabilities increased \$28,853. This is largely the result of an increase in legal fees related to project review. The Fund's net position increased by \$4,934,702 or approximately 3%.
- The Fund's revenues increased by \$282,006 or approximately 18%. This is primarily due to an increase in administrative fees of \$48,421, as well as an increase in investment earnings and interest on loans of \$177,776 and \$55,809 respectively.
- 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 \$3,774,306 from the prior year.
- Nine (9) new loans were closed during the current year. Also, there are eleven (11) additional loans that are still under construction that were closed in prior years, eight (8) of which are substantially complete but still have a remaining loan balance.

(Continued)

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

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

**USING THIS REPORT**

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

**THE FUND AS A WHOLE**

Assets of the Fund increased \$4,963,555 or about 3%. The Fund has \$37,651 in liabilities as of the current fiscal year and \$8,798 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  
Statement of Net Position**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Current Assets	\$ 36,903,367	\$ 31,105,443
Loans Receivable, less current maturities, net	<u>131,283,011</u>	<u>132,117,380</u>
<b>Total assets</b>	\$ 168,186,378	\$ 163,222,823
<b>Liabilities</b>		
Current Liabilities	<u>\$ 37,651</u>	<u>\$ 8,798</u>
<b>Net position</b>		
Restricted	<u>\$ 168,148,727</u>	<u>\$ 163,214,025</u>

(Continued)



**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
(Unaudited)**

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

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

	2018	2017
<b>Revenues:</b>		
<b>Operating revenues:</b>		
Administrative fees	\$ 709,399	\$ 660,978
Interest on loans	754,063	698,254
Total operating revenues	1,463,462	1,359,232
<b>Investment earnings</b>	373,145	195,369
Total revenues	1,836,607	1,554,601
<b>Operating expenses</b>	(738,999)	(759,673)
Income (loss) before capital grants and contributions	1,097,608	794,928
<b>Capital grants and contributions</b>	3,837,094	7,611,400
<b>Increase in net position</b>	\$ 4,934,702	\$ 8,406,328

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 \$2,188,894 and the State match through the West Virginia Infrastructure and Jobs Development Council in the amount of \$1,648,200 totaling \$3,837,094. Of the \$2,188,894 received from the EPA in the current year, \$171,358 was disbursed with an agreed 100% loan forgiveness feature. 100% of the EPA amount was for eligible costs reviewed and approved by the Fund and was disbursed as loans to local governmental agencies to assist in drinking water infrastructure projects and is included on the balance sheet in “Loans Receivable.” Of the \$1,648,200 received from the State during the current year in matching funds, \$660,944 was disbursed during the year. In addition, \$1,913,524 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 two quarter’s 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 \$3,760,106 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 \$788,880 from prior year. Nine (9) loans closed during the current year, totaling \$17,678,449. One (1) loan closed in the second quarter, and eight (8) closed in the fourth quarter.

(Continued)

## **WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

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

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

Total revenues, including operating revenues and investment earnings totaled \$1,836,607. This was an increase of \$282,006 from prior year. This was attributed to an increase in administrative fees of \$48,421 over the prior year, an increase in investment earnings of \$177,776, and an increase in interest on loans of \$55,809.

The nine loans that closed in the current year totaled \$17,678,449. The amounts disbursed for these loans totaled \$920,545 of which \$54,398 represented federal funds, \$16,426 represented state match, and \$849,721 represented proceeds from loan repayment. The amount disbursed during the current year for loans closed in prior years totaled \$6,197,745 of which \$2,134,496 represented federal funds with \$171,358 of those funds having principal forgiveness features, \$644,518 represented State match with \$51,742 of those funds having principal forgiveness features, and \$3,418,731 represented proceeds from loan repayments with \$430,874 having principal forgiveness features. The sum of all disbursements for the years ended June 30, 2018 and 2017 was \$7,118,290 and \$16,264,179, respectively.

#### **COMMITMENTS AND PENDING APPLICATION FOR EPA GRANT**

As of June 30, 2018, the Fund had outstanding binding commitments to loan to qualified recipients of \$633,704 and a \$3,269,574 grant awarded by the EPA but not yet disbursed for approved drinking water infrastructure projects. Funding for approved projects will come from resources currently available to the Fund such as loan repayments as well as federal capital grants and State matches to be paid to the Fund in future periods. As of the year ended June 30, 2018 the Fund has \$26,775,073 in cash equivalents available for these projects. Additionally, the Fund has \$380,520 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 2019 grant period. The application was approved in August 2018, and resulted in an award from the EPA of \$11,107,000. The \$2,221,400 State match has been committed to the Fund in order to secure the federal funds. The total of \$13,328,400, 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.

The 2018 EPA Capitalization Grant awarded for fiscal year 2019 contained a provision which requires that not less than twenty (20) percent be provided to eligible water system loan recipients in the form of grants, negative interest, or principal forgiveness. Furthermore, in a state in which such an emergency declaration has been issued, the recipient may use more than twenty (20) percent of the funds made available for capitalization grants to provide additional subsidy to eligible recipients. 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 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.

(Continued)

## **WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

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

#### **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](http://www.wwwda.org)).

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**STATEMENT OF NET POSITION**

**June 30, 2018**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents (Note 3)	\$ 27,155,593
Administrative fees receivable	60,878
Accrued interest receivable	70,167
Current maturities of loans receivable (Note 4)	<u>9,616,729</u>
Total current assets	<u>36,903,367</u>

LOANS RECEIVABLE, less current maturities (net of principal forgiveness of \$7,753,848) (Note 4)	<u>131,283,011</u>
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Total assets	<u><u>\$ 168,186,378</u></u>
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**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable, related party	<u><u>\$ 37,651</u></u>
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**NET POSITION**

Net position, restricted	<u><u>\$ 168,148,727</u></u>
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The Notes to the Financial Statements are an integral part of these statements.

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**

**Year Ended June 30, 2018**

<b>OPERATING REVENUES</b>	
Administrative fees	\$ 709,399
Interest on loans	754,063
	<u>1,463,462</u>
<b>OPERATING EXPENSE</b>	
Administrative expense	85,025
Grant expense - principal forgiveness	653,974
	<u>738,999</u>
Operating income	724,463
<b>NONOPERATING REVENUES</b>	
Investment income	<u>373,145</u>
Income before capital grants and contributions	<u>1,097,608</u>
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	
U.S. Environmental Protection Agency (Note 5)	2,188,894
State of West Virginia (Note 5)	1,648,200
	<u>3,837,094</u>
Increase in net position	4,934,702
NET POSITION, beginning	<u>163,214,025</u>
NET POSITION, ending	<u><u>\$ 168,148,727</u></u>

The Notes to the Financial Statements are an integral part of these statements.

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**STATEMENT OF CASH FLOWS**

**Year Ended June 30, 2018**

**OPERATING ACTIVITIES**

Cash payments for:	
Loans originated	\$ (7,118,290)
Administrative expenses	(56,172)
Cash receipts from:	
Principal repayments	6,797,783
Administrative fees	706,757
Interest on loans	746,059
Net cash and cash equivalents used in operating activities	<u>1,076,137</u>

**CAPITAL AND FINANCING ACTIVITIES**

Capital grants and contributions received:	
U.S. Environmental Protection Agency	2,188,894
State of West Virginia, Infrastructure and Jobs Development Council	1,648,200
Net cash provided by capital and related financing activities	<u>3,837,094</u>

**INVESTING ACTIVITIES**

Investment income	<u>373,145</u>
Net decrease in cash and cash equivalents	5,286,376

CASH AND CASH EQUIVALENTS, beginning 21,869,217

CASH AND CASH EQUIVALENTS, ending \$ 27,155,593

Reconciliation of operating income to net cash and cash equivalents used in operating activities:

Operating income	\$ 724,463
Adjustments to reconcile operating income to net cash and cash equivalents used in operating activities:	
Increase in loans receivable	333,467
Increase in administrative fees receivable	(2,642)
Decrease in accrued interest receivable	(8,004)
Decrease in accounts payable, related party	28,853
Net cash and cash equivalents used in operating activities	<u>\$ 1,076,137</u>

**SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES**

New loans originated with principal forgiveness features	<u><u>\$ 653,974</u></u>
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The Notes to the Financial Statements are an integral part of these statements.

# WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### Note 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, 2018 Congress has authorized the EPA to award \$202,256,782 in capitalization grants to the State, of which \$152,022,901 is allocated to the fund. The state is required to contribute \$36,537,757 in matching funds to the Fund, which are provided through the West Virginia Infrastructure and Jobs Development Council. The 2018 Capitalization Grant State Match of \$2,221,400 has been deposited in the Fund in July 2018.

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.

### Note 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 of the State and as such is included in the State’s financial statements as a proprietary fund and business type activity blended component 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.

(Continued)

# WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### Note 2. Significant Accounting Policies (Continued)

#### Cash and cash equivalents

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

#### Loans receivable

The State operates the Fund as a perpetual revolving loan program, whereby loans made to local governmental agencies or other eligible water providers are funded by a federal capitalization grant, including amounts awarded under the former American Recovery and Reinvestment Act of 2009 (ARRA), and the State matching amount and/or repayments from existing loans. Loan funds are disbursed to the local governmental agencies or other eligible water providers as costs are incurred on approved projects. Interest, if applicable, is not paid during construction but begins accruing three months before the date that local governmental agencies or other eligible water providers begin repayment; and the payment schedule is adjusted for actual amounts disbursed and interest accrued on those disbursements. The loans are secured by a lien on the revenues of the local governmental agencies’ or other eligible water providers’ water systems and by debt service reserve funds held by the West Virginia Municipal Bond Commission. According to the terms as set forth in the ARRA, management believes that it is probable that certain of the local government agencies will fulfill specific ARRA program requirements allowing for principal forgiveness, and as such a 100% principal forgiveness valuation has been made for certain of these program loans through the year ended June 30, 2018.

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

As of June 30, 2018, 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.

(Continued)



# WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### Note 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.

### Note 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 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.

(Continued)

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 3. Cash and Cash Equivalents (Continued)**

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all long-term corporate debt be rated A+ or higher by Standard & Poor's (or its equivalent) and short-term corporate debt be rated at A-1 or higher by Standard & Poor's (or its equivalent). The pool must have at least 15% of its assets in U.S. Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America. 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+	\$ 473,172	14.5%
	P-1	A-1	1,351,128	41.39
	P-2	A-1	44,600	1.37
Corporate bonds and notes	P-1	A-1	18,078	0.55
U.S. Treasury notes *	Aaa	AA+	90,330	2.77
U.S. Treasury bills *	P-1	A-1+	252,084	7.72
Negotiable certificates of deposit	P-1	A-1+	205,501	6.30
	P-1	A-1	458,300	14.04
Money market funds	Aaa	AAAm	143,067	4.38
Repurchase agreements (underlying securities):				
U.S. agency bonds and notes	Aaa	AA+	227,800	6.98
			<u>\$3,264,060</u>	<u>100.00%</u>

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

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

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

(Continued)

# WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### Note 3. Cash and Cash Equivalents (Continued)

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

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

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 227,800	3
U.S. Treasury notes	90,330	73
U.S. Treasury bills	252,084	69
Commercial paper	1,868,900	36
Negotiable certificates of deposit	663,801	29
Corporate bonds and notes	18,078	21
Money market funds	143,067	3
	<u>\$ 3,264,060</u>	34

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

### Note 4. Loans Receivable

As of June 30, 2018, 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 \$653,974 in loans whose principal was forgiven during the year ended June 2018 in accordance with funding covenants provided by the EPA. Accordingly a valuation account for expected principal forgiveness has been recorded as of June 30, 2018 for the total allotment of anticipated qualifying principal forgiveness loans. During the year, the Fund disbursed \$6,464,316 of loans which are required to be repaid in accordance with the loan agreements.

(Continued)

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 4. Loans Receivable (Continued)**

Loans receivable consisted of the following at June 30, 2018:

Loans without principal forgiveness features	\$	140,899,740
ARRA loans		5,946,435
EPA principal forgiveness loans		1,807,413
Total loans outstanding		148,653,588
Less:		
Allowance for expected principal forgiveness		7,753,848
Current maturities		9,616,729
		17,370,577
Total loans receivable, net of current maturities and principal forgiveness	\$	131,283,011

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 2032. 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:

2019	\$	9,616,729
2020		9,906,065
2021		9,923,806
2022		8,463,938
2023		7,337,810
Thereafter		122,200,534
Less loans closed but not disbursed		18,795,294
Less current maturities		9,616,729
Less allowance for principal forgiveness programs		7,753,848
		26,165,871
Total loans receivable, net of current maturities and principal forgiveness	\$	131,283,011

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 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, 2018, 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
11/9/2002	5,374,479	1,557,820
10/23/2003	5,556,225	1,610,500
6/16/2005	5,522,829	1,600,820
12/1/2005	5,729,139	1,660,620
12/4/2006	5,716,995	1,657,100
12/19/2007	5,678,217	1,645,860
11/7/2008	6,089,460	1,645,800
6/15/2009*	15,350,000	-
8/3/2009*	3,900,000	-
10/1/2009	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	1,883,600
1/20/2012	150,000	-
9/5/2012	6,224,032	1,801,257
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	5,949,000	1,662,400
8/1/2017	5,458,468	1,648,200
	<u>\$152,022,901</u>	<u>\$36,537,757</u>

\*Funds did not require a State match.

(Continued)

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 5. Capital Grants and Contributions (Continued)**

The following represents the amounts of EPA grants and State matching funds received by the Fund through June 30, 2018:

<u>Cumulative Through</u>	<u>Federal</u>	<u>State</u>	<u>Total Capital Grants and Contributions</u>
June 30, 2018	<u>\$148,753,327</u>	<u>\$36,537,757</u>	<u>\$185,291,084</u>

**Note 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, 2018:

<u>Local Governmental Agency</u>	<u>Commitment Date</u>	<u>Amount Committed by the Fund</u>
Town of Oceana	2/26/2018	\$ 450,000
Lashmeet PSD	5/30/2018	<u>183,704</u>
Total		<u>\$ 633,704</u>

The Fund has awarded amounts not yet disbursed of approximately \$18,795,294 for projects previously approved and in various stages of completion.

**Note 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, 2018.

**Note 8. 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, 2018, the Fund had incurred and recognized \$85,025 in administrative expenses of which \$37,651 remained payable to the Authority at June 30, 2018.

**ACCOMPANYING INFORMATION**

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**SCHEDULES OF ADMINISTRATIVE FEES ACTIVITY**

**June 30, 2018**

**SCHEDULE OF ASSETS AND FUND NET POSITION**

**ASSETS**

Cash and cash equivalents	\$ 5,989,260
Administrative fees receivable	60,878
Total assets	<u>\$ 6,050,138</u>

**LIABILITIES**

Accounts payable, related party	<u>\$ 37,651</u>
---------------------------------	------------------

**RESTRICTED FUND NET POSITION**

\$ 6,012,487

**SCHEDULE OF ADMINISTRATIVE FEES ACTIVITY IN FUND NET POSITION**

**REVENUES**

Administrative fees	\$ 709,399
Interest on investments	86,237
Total revenues	<u>795,636</u>

**EXPENSES**

Administrative expense	85,025
Net income	<u>710,611</u>

**RESTRICTED FUND NET POSITION - ADMINISTRATIVE FEES, beginning**

5,301,876

**RESTRICTED FUND NET POSITION - ADMINISTRATIVE FEES, ending**

\$ 6,012,487

**SCHEDULE OF CASH FLOWS**

**NET INCOME**

\$ 710,611

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

Increase in administrative fees receivable	(2,642)
Increase in accounts payable, related party	28,853

**NET CASH PROVIDED BY ADMINISTRATIVE FEES ACTIVITY**

736,822

**CASH AND CASH EQUIVALENTS, ending**

5,252,438

**CASH AND CASH EQUIVALENTS, beginning**

\$ 5,989,260

See Independent Auditor's Report.



**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2018**

<u>U.S. Environmental Protection Agency</u>	<u>CFDA #</u>	<u>Expenditures</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ <u>2,188,894</u> <sup>1</sup>

<sup>1</sup> This amount was passed through to non federal entities under a loan program.

**Note 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, 2018. 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* (Uniform Guidance). 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.

**Note 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.

**Note 3. Indirect Cost Rate**

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



**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, 2018, 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 10, 2018.

**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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia  
October 10, 2018



**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, 2018. 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, 2018.

## 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.



CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia  
October 10, 2018

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2018

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Section I - Summary of Auditor's Results

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*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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2018**

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Section I - Summary of Auditors' Results (Continued)

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Dollar threshold used to distinguish  
between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

X  Yes    \_\_\_ No

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Section II - Financial Statement Findings

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No findings were identified that are required to be reported under this section.

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Section III - Federal Award Findings and Questioned Costs

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No findings were identified that are required to be reported under this section.



**WEST VIRGINIA**

**Water Development Authority**

*Celebrating 44 Years of Service 1974-2018*

## APPENDIX D

### WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

### FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT



**WEST VIRGINIA INFRASTRUCTURE  
AND JOBS DEVELOPMENT COUNCIL**

**FINANCIAL REPORT**

**Year Ended June 30, 2018**

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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, 2018, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Council, as of June 30, 2018, 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, 2018, 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, the schedule of the proportionate share of the net pension liability, the schedule of contributions to the PERS, the schedule of the proportionate share of the net OPEB liability, and the schedule of contributions to the RHBT on pages 46 through 51, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2018, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia  
October 9, 2018

**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, 2018. 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 increased \$7.47 million from \$802.483 million to \$809.953 million
- Deferred outflows of resources decreased \$142 thousand from \$1.162 million to \$1.020 million
- Total liabilities decreased \$7 million from \$188 million to \$181 million
- Deferred inflows of resources increased \$32 thousand from \$18 thousand to \$50 thousand
- Net position increased \$14 million from \$615 million to \$629 million

Governmental Activities:

- Total assets decreased \$99 from the previous year
- Deferred outflows of resources decreased \$659 thousand from \$6.152 million to \$5.493 million
- Total liabilities decreased \$13 million from \$187 million to \$174 million
- The deficiency in net position decreased \$13 million from (\$181) million to (\$168) million

Government Wide:

- Total assets increased \$7.47 million from \$802.483 million to \$809.953 million
- Deferred outflows of resources decreased \$802 thousand from \$7.315 million to \$6.513 million
- Total liabilities decreased \$20 million from \$375 million to \$355 million
- Deferred inflows of resources increased \$32 thousand from the prior year
- Net position increased by \$27 million from \$434 million to \$461 million

Other Highlights:

- 15 water and waste water project and economic development loans were closed for the year ended June 30, 2018 on behalf of the Council
- 25 water and wastewater grants were closed for the year ended June 30, 2018 on behalf of the Council

(Continued)

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

	<b>Table 1 Net Position</b>			
	2018 Business Type Activities	2018 Governmental Type Activities	2017 Business Type Activities	2017 Governmental Type Activities
<b>ASSETS</b>				
Cash equivalents	\$ 143,343,746	\$ 24	\$ 140,837,696	\$ 123
Investments	95,922,505	-	100,331,825	-
Assets held by others	-	-	206,000	-
Loans receivable, net	568,197,623	-	559,071,974	-
Other	2,489,085	-	2,035,602	-
<b>Total assets</b>	<b>\$ 809,952,959</b>	<b>\$ 24</b>	<b>\$ 802,483,097</b>	<b>\$ 123</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources from pensions	\$ 33,088	\$ -	\$ 97,796	\$ -
Deferred outflows of resources from OPEB	3,345	-	-	-
Deferred loss on refunding	983,593	5,493,428	1,064,683	6,152,420
<b>Total deferred outflows</b>	<b>\$ 1,020,026</b>	<b>\$ 5,493,428</b>	<b>\$ 1,162,479</b>	<b>\$ 6,152,420</b>
<b>LIABILITIES</b>				
Bond payable, net	\$ 178,395,141	\$ 173,097,918	\$ 185,290,226	\$ 186,190,638
Net pension liability	55,576	-	178,377	-
Net OPEB liability	50,460	-	-	-
Other	2,936,215	715,690	2,999,833	775,081
<b>Total liabilities</b>	<b>\$ 181,437,392</b>	<b>\$ 173,813,608</b>	<b>\$ 188,468,436</b>	<b>\$ 186,965,719</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources from pensions	\$ 30,952	\$ -	\$ 18,520	\$ -
Deferred inflows of resources from OPEB	19,343	-	-	-
<b>Total deferred inflows of resources</b>	<b>\$ 50,295</b>	<b>\$ -</b>	<b>\$ 18,520</b>	<b>\$ -</b>
<b>NET POSITION</b>				
Restricted	\$ 621,723,250	\$ 24	\$ 593,751,485	\$ 123
Unrestricted (deficit)	7,762,048	(168,320,180)	21,407,135	(180,813,299)
<b>Total net position</b>	<b>\$ 629,485,298</b>	<b>\$ (168,320,156)</b>	<b>\$ 615,158,620</b>	<b>\$ (180,813,176)</b>

(Continued)

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

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

**Table 2  
Changes in Net Position**

	2018 Business Type Activities	2018 Governmental Type Activities	2017 Business Type Activities	2017 Governmental Type Activities
<b>Revenues</b>				
<b>Program revenues</b>				
Charges for services	\$ 3,344,075	\$ -	\$ 3,095,301	\$ -
<b>General revenues</b>				
Miscellaneous revenues	5,732	-	2,005	-
Intergovernmental	46,000,000	19,338,488	26,000,000	22,055,613
Investment earnings	2,598,700	72,455	1,016,289	33,148
Total general revenues	48,604,432	19,410,943	27,018,294	22,088,761
Total revenues	51,948,507	19,410,943	30,113,595	22,088,761
<b>Expenses</b>				
General & administrative	802,289	-	802,790	-
Interest on long-term debt	6,744,292	6,884,193	8,339,703	8,019,096
Bond issue costs	-	-	-	208,713
Infrastructure & economic development	20,285,164	-	15,917,162	-
Loss on uncollectible loans	9,753,754	-	544,000	-
Transfers (in) out	(33,730)	33,730	(224,710)	224,710
Total expenses	37,551,769	6,917,923	25,378,945	8,452,519
Changes in net position	14,396,738	12,493,020	4,734,650	13,636,242
Beginning net position (deficit)	615,158,620	(180,813,176)	610,423,970	(194,449,418)
Cumulative effect of change in accounting principle	(70,060)	-	-	-
Beginning Net Position, restated	615,088,560	-	-	-
Ending net position (deficit)	\$ 629,485,298	\$ (168,320,156)	\$ 615,158,620	\$ (180,813,176)

(Continued)

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

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

**Cash equivalents**, which include short-term, highly liquid investments with original maturities of 90 days or less, increased \$2.5 million, from \$140.8 million last year to \$143.3 million at the end of the current year. The increase in cash was primarily the result of an increase in investment earnings of \$1.6 million, interest on loans, principal repayments of loans, receipt of \$46 million in Excess Lottery funds, and a transfer of \$5.4 million from investments to cash equivalents.

Offsetting these increases were expenses for loans and grants totaling \$49 million, as well as contributions of the State Matching fund for the federally sponsored Drinking Water Treatment Revolving Fund and Clean Water State Revolving Fund, principal and interest payments on outstanding bonds payable, and general and administrative expenses.

**Investments** decreased \$4 million due to transferring \$5.4 million to cash equivalents offset by investment earnings.

**Assets held by others** decreased \$206 thousand due to the sale of the Winterburn property by the West Virginia Water Development Authority on behalf of the Infrastructure Jobs and Development Council.

**Loans receivable** increased \$9 million. This increase was primarily the combined effect of disbursements of new and prior year loan funds to projects of approximately \$40 million, less repayments of principal on loans of approximately \$21 million, offset by an increase in the allowance for uncollectible loans of \$7 million for two economic development loans that have forgivable features.

**Deferred outflows of resources** decreased \$801 thousand which was the result of current year amortizations of loss on refundings in the amount of \$740 thousand, and a decrease in the deferred outflow of resources for pension expense and pension contributions in the amount of \$65 thousand. This was offset by an increase in the deferred outflow of resources for OPEB expense and OPEB contributions in the amount of \$3 thousand due to the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* which is explained further in Notes 5 and 12.

**Total liabilities** decreased \$20 million primarily due to a net decrease in bonds payable from the previous year. Bonds payable increased by current year accretion of \$3 million and decreased by \$21 million due to current year principal repayments.

**Deferred inflows of resources** increased by \$32 thousand due to the current year pension activity and the addition of the deferred inflows from OPEB due to the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

**Restrictions of net position** are the result of constraints placed on the use of net position which have been imposed externally through debt covenants and by law through enabling legislation. Restricted net position increased approximately \$28 million during the current year. That increase can be explained primarily as follows: mineral severance tax revenue of \$19.3 million, excess lottery funds of \$6 million to pay debt service on the Chesapeake Bay bonds, and a transfer from the unrestricted funds of \$42.5 million for loan disbursements. Offsetting the increases were disbursements of \$33 million of principal and interest expense related to revenue and general obligation bonds and grant disbursements of \$9.5 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

(Continued)



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

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

lottery revenue and earnings on debt service reserve funds. As provided by enabling legislation, the earnings on those restricted accounts were transferred to the unrestricted revenue account and various rebate accounts and were used, in part, to pay operating expenses of the Council.

**Unrestricted Net Position** for business type activities as of June 30, 2018 is \$7.8 million, a decrease from the prior year of approximately \$13.6 million. This is due to the receipt of excess lottery revenue of \$40 million offset by an internal transfer within the business type activities to restricted funds of \$42.5 million, payment of general and administrative expenses of \$802 thousand, and \$10.8 million for the State Match of the federally sponsored Drinking Water Treatment Revolving Fund and the Clean Water State 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 9 in the Notes to the Financial Statements for further detail. Although the governmental fund reports a deficit, an amount not to exceed \$22.25 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, 2018, is \$461 million.

**Charges for services** consist of interest earnings on loans to projects which increased during the current year by \$249 thousand. Loans receivable had a net increase of \$9 million during the current year and loans that are repaying have a nominal interest rate.

**Intergovernmental activity** consists of \$19.3 million mineral severance tax revenue and \$46 million excess lottery revenue, both appropriated from the State. The mineral severance tax revenue was received from the State's general fund into the Debt Service Fund to pay the general obligation bonds debt service payments required in fiscal year 2018. 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 excess lottery proceeds 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 \$1.6 million from the prior year. Interest rates for the money market accounts increased during the fiscal year and a diversified portfolio consisting of US Treasury Notes and corporate bonds resulted in higher earnings.

**Interest on long-term debt** decreased approximately \$2.7 million. The decrease is the result of lower interest rates obtained from several bond refundings in recent years.

(Continued)

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

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

**Infrastructure and economic development activity** consists of grants paid to projects, binding commitments as well as the contributions for the required State match for the federally sponsored Drinking Water Treatment Revolving Fund and the Clean Water State Revolving Fund. The current year disbursement of State Matching funds was approximately \$10.7 million consisting of \$1.6 million allocated to the Drinking Water Treatment Revolving Fund and \$9.1 million was allocated to the Clean Water State Revolving Fund, of which \$5 million is applicable to fiscal year 2019. As of year-end, the Council has 15 binding commitments. These include 6 loans and 9 grants for which the funds are committed and not disbursed as described in Note 16 to the financial statements.

**Loss on uncollectible loans** increased \$9.2 million due to an allowance for two Economic Development 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.

**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, 2018, deposits of \$40 million were made for water, wastewater, and economic development projects, with no more than 20% of the funds deposited to be spent on grants. For the year ended June 30, 2019, \$40 million is to be deposited for projects and includes the stipulation that no more than 20% 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 Senate Bill 1013, \$46 million was appropriated to the West Virginia Infrastructure Council during fiscal year 2018 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 \$40 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.

(Continued)

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

**DEBT ADMINISTRATION (Continued)**

At year-end, \$323 million (prior to amortization) in general obligation, revenue and refunding bonds issued for the benefit of the Council were outstanding versus \$341 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 9 of the financial statements.

As of June 30, 2018, 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 Refunding Bonds Series 2011A, Series 2015A, Series 2015B and Series 2017 had a Standard & Poor's rating of AA-. The bond insurer, National Public Finance Guarantee Corporation, had a rating by Standard & Poor's of A.

As of June 30, 2018, the West Virginia Water Development Authority, Infrastructure Revenue Refunding Bonds Series 2012A and Series 2016A had a Moody's rating of A1 and a Fitch rating of A+.

As of June 30, 2018, 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 AA- from Standard & Poor's reflects the State's moral obligation, which is one full category below the State's A 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.

(Continued)

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

**FACTORS WHICH MAY AFFECT THE COUNCIL (Continued)**

The Legislature appropriated to the Council \$46 million for fiscal year 2019 from the excess lottery revenue fund. This amount is contingent on revenue collected from state video lottery operations meeting expected projections; therefore, the Council may receive up to \$40 million to provide additional loans, grants and other funding assistance and an additional \$6 million restricted for 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.

**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, 2018**

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash equivalents (Note 7)	\$ 24	\$ 143,343,746	\$ 143,343,770
Investments (Notes 7 and 8)	-	95,922,505	95,922,505
Accrued interest receivable	-	2,471,844	2,471,844
Loans receivable, net of allowances of \$23,663,754	-	568,197,623	568,197,623
Miscellaneous receivable	-	17,241	17,241
	<u>24</u>	<u>809,952,959</u>	<u>809,952,983</u>
Total assets	<u>\$ 24</u>	<u>\$ 809,952,959</u>	<u>\$ 809,952,983</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Losses on bond refundings	\$ 5,493,428	\$ 983,593	\$ 6,477,021
Deferred outflows of resources from OPEB (Note 12)	-	3,345	3,345
Deferred outflows of resources from pensions (Note 11)	-	33,088	33,088
	<u>5,493,428</u>	<u>1,020,026</u>	<u>6,513,454</u>
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 10,929	\$ 10,929
Due to other State of West Virginia agencies (Note 10)	-	210,486	210,486
Accrued interest payable	715,690	2,714,800	3,430,490
Net OPEB liability (Note 12)	-	50,460	50,460
Net pension liability (Note 11)	-	55,576	55,576
General obligation bonds (Note 9)			
Due within one year, net of unamortized premium of \$1,593,873	18,073,873	-	18,073,873
Due after one year, net of unamortized premium of \$11,234,056	155,024,045	-	155,024,045
Revenue bonds (Note 9)			
Due within one year, net of unamortized premium of \$835,085	-	6,350,085	6,350,085
Due after one year, net of unamortized premium of \$14,765,056	-	172,045,056	172,045,056
	<u>173,813,608</u>	<u>181,437,392</u>	<u>355,251,000</u>
Total liabilities	<u>\$ 173,813,608</u>	<u>\$ 181,437,392</u>	<u>\$ 355,251,000</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferrend inflows of resources from OPEB (Note 12)	\$ -	\$ 19,343	\$ 19,343
Deferrend inflows of resources from pensions (Note 11)	-	30,952	30,952
	<u>-</u>	<u>50,295</u>	<u>50,295</u>
<b>NET POSITION</b>			
Net position:			
Restricted (Note 15)	\$ 24	\$ 621,723,250	\$ 621,723,274
Unrestricted (deficit)	(168,320,180)	7,762,048	(160,558,132)
	<u>24</u>	<u>629,485,298</u>	<u>461,165,142</u>
Total net position	<u>\$ 24</u>	<u>\$ 629,485,298</u>	<u>\$ 461,165,142</u>

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

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2018**

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	\$ 6,884,193	\$ -	\$ (6,884,193)	\$ -	\$ (6,884,193)
Business-type activities:					
Infrastructure and jobs development	37,585,499	3,344,075	-	(34,241,424)	(34,241,424)
<b>Total primary government</b>	<b>\$ 44,469,692</b>	<b>\$ 3,344,075</b>	<b>\$ (6,884,193)</b>	<b>\$ (34,241,424)</b>	<b>\$ (41,125,617)</b>
General revenues:					
Intergovernmental (Note 10)			\$ 19,338,488	\$ 46,000,000	\$ 65,338,488
Other			-	5,732	5,732
Investment earnings			72,455	2,598,700	2,671,155
Transfers in (out)			(33,730)	33,730	-
<b>Total general revenues and transfers</b>			<b>19,377,213</b>	<b>48,638,162</b>	<b>68,015,375</b>
<b>Change in net position</b>			<b>12,493,020</b>	<b>14,396,738</b>	<b>26,889,758</b>
<b>Net position, beginning of year</b>			<b>(180,813,176)</b>	<b>615,158,620</b>	<b>434,345,444</b>
Cumulative effect of change in accounting principle (Note 5)			-	(70,060)	(70,060)
<b>Net position, beginning of year as restated</b>			<b>(180,813,176)</b>	<b>615,088,560</b>	<b>434,275,384</b>
<b>Net position, end of year</b>			<b>\$ (168,320,156)</b>	<b>\$ 629,485,298</b>	<b>\$ 461,165,142</b>

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

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**BALANCE SHEET - GOVERNMENTAL FUND**

**June 30, 2018**

	<u>Debt Service Fund</u>
<b>ASSETS</b>	
Cash	\$ 24
	<u>24</u>
<b>FUND BALANCE</b>	
Restricted fund balance	\$ 24
	<u>24</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, 2018**

	Debt Service Fund
	<u>                    </u>
REVENUES:	
Intergovernmental (Note 10)	\$ 19,338,488
Investment earnings	72,455
Total revenues	<u>19,410,943</u>
 EXPENDITURES:	
Debt service:	
Principal	14,905,000
Interest	4,472,312
Total expenditures	<u>19,377,312</u>
 OTHER FINANCING SOURCES (USES):	
Transfers out	<u>(33,730)</u>
Total other financing uses	<u>(33,730)</u>
 Net change in fund balance	(99)
 FUND BALANCE, beginning	<u>123</u>
 FUND BALANCE, ending	<u><u>\$ 24</u></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, 2018**

	<u>Enterprise Fund</u>
<b>ASSETS</b>	
CURRENT ASSETS	
Cash equivalents	\$ 143,343,746
Investments (Notes 7 and 8)	95,922,505
Current portion of loans receivable	22,789,981
Accrued interest receivable	2,471,844
Miscellaneous receivable	17,241
Total current assets	264,545,317
NONCURRENT ASSETS	
Loans receivable, net of allowances of \$23,663,754	545,407,642
Total noncurrent assets	545,407,642
Total assets	\$ 809,952,959
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources from OPEB (Note 12)	\$ 3,345
Deferred outflows of resources from pensions (Note 11)	33,088
Loss on bond refundings	983,593
	\$ 1,020,026
<b>LIABILITIES</b>	
CURRENT LIABILITIES	
Accounts payable	\$ 10,929
Due to other State of West Virginia agencies (Note 10)	210,486
Accrued interest payable	2,714,800
Current portion of revenue bonds payable, net of unamortized premium of \$835,085 (Note 9)	6,350,085
Total current liabilities	9,286,300
NONCURRENT LIABILITIES	
Net OPEB liability (Note 12)	50,460
Net pension liability (Note 11)	55,576
Noncurrent portion of revenue bonds payable, net of unamortized premium of \$14,765,056 (Note 9)	172,045,056
Total liabilities	\$ 181,437,392
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources from OPEB (Note 12)	\$ 19,343
Deferred inflows of resources from pensions (Note 11)	30,952
	\$ 50,295
<b>NET POSITION</b>	
Restricted (Note 15)	\$ 621,723,250
Unrestricted	7,762,048
Total net position	\$ 629,485,298

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, 2018**

	Enterprise Fund
INTEREST CHARGES FOR SERVICES	\$ 3,344,075
OPERATING EXPENSES	
Infrastructure and economic development	20,285,164
Provisions for uncollectible loans	9,753,754
General and administrative (Note 13)	802,289
Total operating expenses	30,841,207
Operating loss	(27,497,132)
NONOPERATING REVENUES (EXPENSES)	
Miscellaneous income	5,732
Intergovernmental (Note 10)	46,000,000
Investment earnings, net	2,598,700
Interest on bonds	(6,744,292)
Total nonoperating revenues, net	41,860,140
Transfers in	33,730
Change in net position	14,396,738
NET POSITION, beginning	615,158,620
Cumulative effect of change in accounting principle (Note 5)	(70,060)
NET POSITION, beginning as restated	615,088,560
NET POSITION, ending	\$ 629,485,298

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, 2018**

	<u>Enterprise Fund</u>
<b>OPERATING ACTIVITIES</b>	
Receipts of principal on loans	\$ 20,979,571
Receipts of interest on loans	3,212,343
Disbursements of loans	(39,858,974)
Disbursements of grants	(20,285,164)
Disbursements of general and administrative expenses	(310,198)
Disbursements on behalf of employees	(317,135)
Net cash used in operations	<u>(36,579,557)</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers	33,730
Proceeds from sale of assets held by others	5,732
Excess lottery and other appropriations	46,000,000
Principal paid on revenue bonds	(6,060,000)
Interest paid on revenue bonds	(7,580,124)
Net cash provided by noncapital financing activities	<u>32,399,338</u>
<b>INVESTING ACTIVITIES</b>	
Purchase of investments	(271,550,526)
Proceeds from sale of investments	275,936,534
Investment earnings	2,300,261
Net cash provided by investing activities	<u>6,686,269</u>
Net increase in cash and cash equivalents	2,506,050
CASH AND CASH EQUIVALENTS, beginning	<u>140,837,696</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 143,343,746</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (27,497,132)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Provision for loan losses	9,753,754
Pension expense	(19,274)
OPEB expense	2,925
Noncash OPEB contribution support	(3,182)
Changes in operating accounts:	
Due to other agencies	42,778
Assets held by others	206,000
Loans receivable	(18,879,403)
Miscellaneous receivables	218
Accrued interest receivable	(131,950)
Accounts payable	(24,559)
Deferred outflows of resources due to pension contributions	(26,387)
Deferred outflows of resources due to OPEB contributions	(3,345)
Net cash used in operating activities	<u>\$ (36,579,557)</u>

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

# WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### Note 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.

### Note 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 non-fiduciary activities of the government. The effect of inter-fund 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.

### Note 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.

(Continued)

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 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 lending 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.

**Note 4. Significant Accounting Policies**

Budgetary accounting

Except for excess lottery revenue appropriated to the enterprise fund for expenditure and mineral severance taxes appropriated to the debt service fund for debt service, 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 generally accepted accounting principles (GAAP) and are carried at either cost, amortized cost, contract value, or fair value as applicable.

(Continued)

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 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.

Inter-fund transactions

During the normal course of Council operations, transfers of resources to provide services take place between funds. Inter-fund 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, certain pension amounts, and certain OPEB 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 gains on bond refundings, pensions, and OPEB on the statement of net position.

(Continued)

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 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.

Postemployment benefits other than pensions (OPEB)

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

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, 2018, 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.

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

**Note 5. Cumulative Effect of Adoption of Accounting Principle**

Effective July 1, 2017, the Council adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The Council determined that it was not practical to restate all periods presented and has recorded the cumulative effect of the decrease to beginning net position of implementing this change of \$70,060 as of July 1, 2017, which is the net OPEB liability of \$74,275 less deferred outflows of resources related to OPEB contributions of \$4,215 as of that date. The Council further determined that it was not practical to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to OPEB as of July 1, 2017 and these amounts are not reported.

**Note 6. Reconciliation of Government-Wide and Fund Financial Statements**

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

Total fund balance on governmental fund balance sheet	\$	24
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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:

Deferred outflows of resources	5,493,428
General obligation bonds	(173,097,918)
Accrued interest on general obligation bonds	<u>(715,690)</u>
Net position (deficit) of governmental activities	<u>\$ (168,320,156)</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	\$	(99)
Principal debt payments recorded on the modified accrual basis of accounting are not recorded in the governmental activities	14,905,000	
Accretion of interest related to capital appreciation bonds is an expense of the governmental activities	<u>(2,411,881)</u>	
Change in net position of governmental activities	<u>\$ 12,493,020</u>	



WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

**Note 7. Deposit and Investment Risk Disclosures**

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

As required by West Virginia Code, the mineral severance tax revenue appropriated annually for debt service on the general obligation bonds is deposited in the General Obligation Debt Service Fund held by the Treasurer of the State of West Virginia and is invested in accordance with the Act and in conformity with investment guidelines of the Board of Treasury Investments (BTI). The Council's Debt Service Fund, which is included in the General Obligation Debt Service Fund's cash balances, reports a carrying amount of \$24 at June 30, 2018.

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:

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 227,800	3
U.S. Treasury notes	90,330	73
U.S. Treasury bills	252,084	69
Commercial paper	1,868,900	36
Negotiable certificates of deposit	663,801	29
Corporate bonds and notes	18,078	21
Money market funds	143,067	3
	<u>\$ 3,264,060</u>	34

(Continued)

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 7. Deposit and Investment Risk Disclosures (Continued)**

Interest rate risk - all other investments

As of June 30, 2018, the Council had the following investments and maturities:

Investment Type	Carrying Value	Investment Maturities (in Years)	
		Less than 1	1-5
U.S. Treasury obligations (carried at fair value)	\$ 87,023,050	\$ 74,686,100	\$ 12,336,950
Corporate bonds (carried at fair value)	8,899,455	1,492,185	7,407,270
Money markets (carried at amortized cost)	143,343,746	143,343,746	-
	<u>\$239,266,251</u>	<u>\$219,522,031</u>	<u>\$19,744,220</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.

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:

(Continued)

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 7. Deposit and Investment Risk Disclosures (Continued)**

<u>Permitted Investments</u>	<u>Maximum Percentage of Portfolio</u>	<u>Enterprise Fund Percentage as of June 30, 2018</u>
(a) Direct Federal Obligations	100%	36.37%
(b) Federally Guaranteed Obligations	100%	-
(c) Federal Agency Obligations	90%	-
(d) Money Markets	90%	59.91%
(e) Repurchase Agreements/Investment Contracts	90%	-
(f) Time Deposits/Certificates of Deposit	90%	-
(g) Demand Deposits	30%	-
(h) Corporate Obligations	15%	3.72%
(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.

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. Short-term corporate debt 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):

(Continued)

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 7. Deposit and Investment Risk Disclosures (Continued)**

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Commercial paper	P-1	A-1+	\$ 473,172	14.5%
	P-1	A-1	1,351,128	41.39
	P-2	A-1	44,600	1.37
Corporate bonds and notes	P-1	A-1	18,078	0.55
U.S. Treasury notes *	Aaa	AA+	90,330	2.77
U.S. Treasury bills *	P-1	A-1+	252,084	7.72
Negotiable certificates of deposit	P-1	A-1+	205,501	6.30
	P-1	A-1	458,300	14.04
Money market funds	Aaa	AAAm	143,067	4.38
Repurchase agreements (underlying securities):				
U.S. agency bonds and notes	Aaa	AA+	227,800	6.98
			<u>\$ 3,264,060</u>	<u>100.00%</u>

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

Credit risk - all other investments

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

Security Type	Moody's	Standard & Poors	Carrying Value
Money markets	Aaa-mf	AAAm	\$ 143,343,746
U.S. Treasury Obligations	P-1	A-1+	87,023,050
Corporate Bonds	P-1	A-1+	8,899,455
West Virginia Money Market Pool	-	AAAm	24
			<u>\$ 239,266,275</u>

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

(Continued)

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 7. 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 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.

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, 2018, 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.

(Continued)

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 7. Deposit and Investment Risk Disclosures (Continued)**

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	\$ 239,266,251
Less: cash equivalents	<u>(143,343,746)</u>
Carrying amount of investments	<u>\$ 95,922,505</u>
As reported on the Statement of Net Position - Proprietary Fund:	
Investments	<u>\$ 95,922,505</u>

**Note 8. Investments Measured at Fair Value**

The Council measures the investments listed below at fair value for financial reporting purposes. GAAP 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 GAAP.

The fair value hierarchy 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.

U.S. Treasury obligations and corporate bonds are reported at fair value, which is determined by a third-party pricing service based on an asset portfolio pricing models and other sources.

The table below summarizes the recurring fair value measurements of the investment securities based on the fair value hierarchy as of June 30, 2018.

<u>Investment Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Treasury obligations	\$ -	\$ 87,023,050	\$ -	\$ 87,023,050
Corporate Bonds	<u>-</u>	<u>8,899,455</u>	<u>-</u>	<u>8,899,455</u>
Total	<u>\$ -</u>	<u>\$ 95,922,505</u>	<u>\$ -</u>	<u>\$ 95,922,505</u>

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

**Note 9. Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended June 30, 2018:

	Balance July 1, 2017	Additions/ Accretions	Debt Reductions	Balance June 30, 2018
Governmental fund type:				
General Obligation Bonds				
1996 Series A & D	\$ 5,030,000	\$ -	\$ 2,440,000	\$ 2,590,000
1999 Series A Capital				
Appreciation	66,204,908	3,430,081	7,075,000	62,559,989
2011 Series A Refunding	3,420,000	-	1,650,000	1,770,000
2015 Series A Refunding	65,965,000	-	2,300,000	63,665,000
2015 Series B Refunding	2,910,000	-	1,440,000	1,470,000
2017 Series Refunding	28,215,000	-	-	28,215,000
	<u>171,744,908</u>	<u>3,430,081</u>	<u>14,905,000</u>	<u>160,269,989</u>
Proprietary fund type:				
Revenue and Refunding Bonds				
2012 Series A Refunding	24,435,000	-	695,000	23,740,000
2014 Series A	70,100,000	-	2,490,000	67,610,000
2016 Series A Refunding	74,320,000	-	2,875,000	71,445,000
	<u>168,855,000</u>	<u>-</u>	<u>6,060,000</u>	<u>162,795,000</u>
<b>Total</b>	<b>\$ 340,599,908</b>	<b>\$ 3,430,081</b>	<b>\$ 20,965,000</b>	<b>\$ 323,064,989</b>

Debt service fund

The proceeds from the Council's bond programs, which originated with a 1994 Constitutional Amendment authorizing the issuance of \$300,000,000 in Infrastructure General Obligation Bonds, 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 \$19.3 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 \$14,905,000 and \$4,472,313, respectively for the year ended June 30, 2018.

Future maturities of general obligation bonds and capital appreciation bonds, with interest rates ranging from 2.0% to 7.625% and maturing through 2027, are as follows:

(Continued)

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 9. Long-Term Debt (Continued)**

	Principal	Interest	Total
2019	\$ 9,455,000	\$ 4,076,969	\$ 13,531,969
2020	9,685,000	3,687,475	13,372,475
2021	10,020,000	3,290,925	13,310,925
2022	10,420,000	2,809,900	13,229,900
2023	10,955,000	2,282,975	13,237,975
	<u>50,535,000</u>	<u>16,148,244</u>	<u>66,683,244</u>
2024-2027	<u>47,175,000</u>	<u>4,138,775</u>	<u>51,313,775</u>
	<u>\$ 97,710,000</u>	<u>\$ 20,287,019</u>	<u>\$ 117,997,019</u>
 Capital Appreciation Bonds:			
	Principal, net of amounts to be accrued in future years	Amounts to be accrued in future years	Total
2019	\$ 6,898,611	\$ 126,389	\$ 7,025,000
2020	7,976,009	598,991	8,575,000
2021	7,598,827	1,026,173	8,625,000
2022	7,280,957	1,444,043	8,725,000
2023	6,876,696	1,823,304	8,700,000
	<u>36,631,100</u>	<u>5,018,900</u>	<u>41,650,000</u>
2024-2027	<u>25,928,889</u>	<u>11,571,111</u>	<u>37,500,000</u>
Total capital appreciation bonds	<u>62,559,989</u>	<u>\$ 16,590,011</u>	<u>\$ 79,150,000</u>
Total general obligation bonds and capital appreciation bonds	160,269,989		
Add: unamortized premium	12,827,929		
Less: amount due within one year	<u>(18,073,873)</u>		
Amount due after one year	<u>\$ 155,024,045</u>		

(Continued)



**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 9. 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>
2019	\$ 5,515,000	\$ 7,369,825	\$ 12,884,825
2020	5,735,000	7,134,050	12,869,050
2021	5,985,000	6,873,925	12,858,925
2022	6,255,000	6,584,325	12,839,325
2023	6,565,000	6,266,150	12,831,150
	<u>30,055,000</u>	<u>34,228,275</u>	<u>64,283,275</u>
2024-2028	36,975,000	26,328,569	63,303,569
2029-2033	44,255,000	16,969,713	61,224,713
2034-2038	35,270,000	6,682,675	41,952,675
2039-2043	12,660,000	1,998,156	14,658,156
2044-2045	3,580,000	230,000	3,810,000
	<u>132,740,000</u>	<u>52,209,113</u>	<u>184,949,113</u>
Total revenue and refunding bonds	162,795,000	<u>\$ 86,437,388</u>	<u>\$ 249,232,388</u>
Add: unamortized premium	15,600,141		
Less: amount due within one year	<u>(6,350,085)</u>		
Amount due after one year	<u>\$ 172,045,056</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 \$7,686,859 and \$674,808 respectively were available for revenue bond debt service of \$7,707,375, comprised of \$3,570,000 for principal and \$4,137,375 for interest, respectively for the year ended June 30, 2018.

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, 2018, there were \$678,600 in defeased general obligation bonds outstanding.

# WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### Note 10. Transactions with State of West Virginia Agencies

The Council received \$19.3 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 2018. 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 Senate Bill 1013, \$46 million was appropriated to the West Virginia Infrastructure Council during fiscal year 2018 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 \$40 million to be used for water, wastewater and economic development projects around the state.

During the year ended June 30, 2018, the Council contributed \$1,648,200 to the Bureau for Public Health for the required State match for the federally sponsored Drinking Water Treatment Revolving Fund to secure federal dollars and continue that program. The Council also contributed \$9,137,600 (\$5,004,000 applies to fiscal year 2019) to the Department of Environmental Protection for the required State match for the federally sponsored Clean Water State Revolving Fund to secure federal dollars and continue that program as well.

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, 2018, the Council had incurred \$802,289 of expenses of which \$210,485 remains unpaid at June 30, 2018.

### Note 11. Pension Benefits

#### *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](http://www.wvretirement.com)

(Continued)

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 11. Pension Benefits (Continued)**

*Benefits Provided*

PERS provides retirement benefits as well as death and disability benefits. Qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. A member may retire with the pension reduced actuarially if the member is at least 55 and has at least 10 years of contributory service, or at any age with 30 years of contributory service. For all employees hired on or after July 1, 2015, qualification for normal retirement is age 62 with 10 years of service. A member hired after July 1, 2015 may retire with the pension reduced actuarially if the member is between ages 60 and 62 with at least ten years of contributory service, between ages 57 and 62 with at least twenty years of contributory services, or between ages 55 and 62 with at least thirty years of contributory service. The straight-life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. 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 with at least ten years of contributory service, or age 63 with at least twenty years of contributory service.

*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 11.0%, 12.0%, and 13.5% for the years ended June 30, 2018, 2017, and 2016 respectively.

During the years ended June 30, 2018, 2017, and 2016, the Council's contributions to PERS required and made were approximately \$26,387, \$21,726, and \$37,417, respectively.

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

At June 30, 2018, the Council reported a liability of \$55,576 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, rolled forward to the measurement date of June 30, 2017. 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, 2017. At June 30, 2017, the Council's proportion was 0.012875 percent, which was a decrease of 0.006532 percent from its proportion measured as of June 30, 2016.

(Continued)

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

**Note 11. Pension Benefits (Continued)**

For the year ended June 30, 2018, the Council recognized pension expense of (\$19,274). At June 30, 2018, 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	\$ -	\$ 13,511
Changes in assumptions	-	2,883
Changes in proportion and differences between the Council's contributions and proportionate share of contributions	1,755	14,435
Difference between expected and actual experience	4,946	123
The Council's contributions made subsequent to the measurement date of June 30, 2017	<u>26,387</u>	<u>-</u>
Total	<u>\$ 33,088</u>	<u>\$ 30,952</u>

The \$26,387 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, 2019. 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,

2019	\$ (8,942)
2020	(152)
2021	(3,483)
2022	(11,674)

*Actuarial Assumptions*

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

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

(Continued)

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 11. Pension Benefits (Continued)**

Mortality rates were based on 100% of RP-2 000 Non-Annuitant, Scale AA fully generational for active employees, 110% of the RP-2000 Non-Annuitant, Scale AA fully generational for healthy males, 101% of the RP-2000 Non-Annuitant, Scale AA fully generational for healthy females, 96% of RP-2000 Disabled Annuitant, Scale AA fully generational for disabled males, and 107% of RP-2000 Disabled Annuitant, Scale AA fully generational for disabled females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2009 through June 30, 2014.

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:

Asset Class	Target Allocation	Long-term Expected Rate of Return	Weighted Average Expected Real Rate of Return
US equity	27.5%	7.0%	1.92%
International equity	27.5%	7.7%	2.12%
Core fixed income	7.5%	2.7%	0.20%
High yield fixed income	7.5%	5.5%	0.41%
Real estate	10.0%	7.0%	0.70%
Private equity	10.0%	9.4%	0.94%
Hedge funds	10.0%	4.7%	0.47%
Total			6.76%
Inflation (CPI)	100.00%		1.90%
			<u>8.66%</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.

(Continued)

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 11. Pension Benefits (Continued)**

*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</u> <u>(6.5%)</u>	<u>Current Discount</u> <u>Rate (7.5%)</u>	<u>1% Increase</u> <u>(8.5%)</u>
The Council's proportionate share of the net pension liability	\$ 153,859	\$ 55,576	\$ 27,521

**Note 12. Other Postemployment Benefits**

*Plan description*

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

*Benefits provided*

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

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

(Continued)

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

**Note 12. Other Postemployment Benefits (Continued)**

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

*Contributions*

West Virginia Code section 5-16D-6 assigns to the PEIA Finance Board the authority to establish and amend contribution requirements of the plan members and the participating employers. Participating employers are required by statute to contribute at a rate assessed each year by the RHBT. The annual contractually required rate is the same for all participating employers. Employer contributions represent what the employer was billed during the respective year for their portion of the pay as you go premiums, commonly referred to as paygo, retiree leave conversion billings, and other matters, including billing adjustments. The annual contractually required per active policyholder per month rates for State non-general funded agencies and other participating employers effective June 30, 2018, 2017, and 2016, respectively, were:

	<u>2018</u>	<u>2017</u>	<u>2017</u>	<u>2016</u>
		1/1/17 -6/30/17	7/1/112/31/16	
Paygo Premium	<u>\$ 177</u>	<u>\$ 135</u>	<u>\$ 196</u>	<u>\$ 163</u>

Contributions to the OPEB plan from the Council were \$3,345, \$8,604, and \$19,152 for the years ended June 30, 2018, 2017, and 2016, respectively.

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

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

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

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

(Continued)

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

**Note 12. Other Postemployment Benefits (Continued)**

*Contributions by Nonemployer Contributing Entities in Special Funding Situations*

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

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

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

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

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

Council's proportionate share of the net OPEB liability	\$ 50,460
State's special funding proportionate share of the net OPEB liability associated with the Council.	<u>10,365</u>
Total portion of net OPEB liability associated with the Council	<u>\$ 60,825</u>

(Continued)



**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

**Note 12. Other Postemployment Benefits (Continued)**

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The Council's proportion of the net OPEB liability was based on its proportionate share of employer and non-employer contributions to the OPEB Plan for the fiscal year ended on the measurement date. At June 30, 2017, the Council's proportion was .00205206 percent, which is a decrease of .002014988 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Council recognized OPEB expense of \$2,925 and for support provided by the State under special funding situations revenue of \$3,182. At June 30, 2018, the Council reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 169
Net difference between projected and actual earnings on OPEB plan investments	-	805
Changes in proportion and differences between Council's contributions and proportionate share of contributions	-	18,369
Council's contributions subsequent to the measurement date of June 30, 2017	3,345	-
Total	\$ 3,345	\$ 19,343

The amount of \$3,345 reported as deferred outflows of resources related to OPEB resulting from Council's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	\$ (5,193)
2020	(5,193)
2021	(5,193)
2022	(3,764)

Actuarial assumptions

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

(Continued)

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 12. Other Postemployment Benefits (Continued)

Actuarial assumptions (Continued)

Inflation	2.75%
Salary increases	Dependent upon pension system ranging from 3.00% to 6.50%, including inflation
Investment rate of return	7.15%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.50% and 9.75% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage of payroll over a 21 year closed period
Remaining amortization period	21 years closed as of June 30, 2016

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015.

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

(Continued)

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 12. Other Postemployment Benefits (Continued)**

Actuarial assumptions (Continued)

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

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

Discount rate

The discount rate used to measure the total OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions would be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. Future pre-funding assumptions include a \$30 million annual contribution from the State through 2037. Based on those assumptions, and that the Plan is expected to be fully funded by fiscal year ended June 30, 2036, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates. The discount rate used to measure the total OPEB liability at June 30, 2016 is a 0.45% increase from the June 30, 2015 valuation.

Other key assumptions

The projection assumes that the capped subsidy aggregate contribution limit of \$150 million for 2017 would increase by \$10 million per year on and after 2018. Additionally, the per member subsidy is projected to increase by at least 3.0% per year but no more than the healthcare trend inflation assumption such that the product of the projected subsidy and projected members is less than the

(Continued)

WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

**Note 12. Other Postemployment Benefits (Continued)**

Other key assumptions (Continued)

projected aggregated capped costs; and the member's share of plan costs is expected remain stable as a percentage of total costs following the year that the program is fully funded. After 2035, the program is projected to be fully funded and the sponsor is assumed to contribute the residual portion of normal cost and operational expenses needed to maintain a funded ratio of 100% in future years. In addition, after 2035, the member's share of total plan costs is assumed to remain stable at approximately 61% of total plan costs. These assumptions produced per member annual capped subsidy increases of 3.0% per year from 2018 to 2023 and 4.5% per year after 2023.

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

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

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

	<u>1% Decrease (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>1% Increase (8.15%)</u>
Council's proportionate share of the net OPEB liability	\$ 58,755	\$ 50,460	\$ 43,565

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

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Authority's proportionate share of the net OPEB liability	\$ 42,387	\$ 50,460	\$ 60,334

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 13. Schedule of General and Administrative Expenses**

General and administrative expenses in the enterprise fund for the year ended June 30, 2018, were as follows:

Salaries and benefits	\$ 339,129
Legal	172,929
Consulting and professional	59,237
Rentals	96,434
Travel and training	4,818
Office supplies	7,127
Computer services	1,806
Telecommunications	1,834
Trustee	110,181
Insurance	4,549
Storage Expense	69
Property Tax	<u>4,176</u>
Total general and administrative	<u>\$ 802,289</u>

**Note 14. 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, 2018.

**Note 15. 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 \$621,723,250 of restricted net position, of which \$103,215,062 is restricted for the debt service related to the defined loan program segment of the revenue bonds.

**Note 16. 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, 2018, \$12,831,922 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 \$3,343 remaining for the Greenbrier Watershed projects. The Council has also designated \$7,225,400 for contributions to two State agencies for the required State match for federally sponsored revolving funds.

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 17. New Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

The GASB issued **Statement No. 83**, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

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

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

**Note 18. 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.

(Continued)

**WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**Note 18. Segment Information (Continued)**

	<u>Defined Loan Program</u>
<b>ASSETS</b>	
CURRENT	\$ 27,631,993
NONCURRENT	<u>176,802,974</u>
Total assets	<u><u>\$ 204,434,967</u></u>
Deferred outflows of resources:	
Losses on bond refundings	\$ 983,593
	<u><u>\$ 983,593</u></u>
<b>LIABILITIES</b>	
CURRENT	\$ 4,555,472
NONCURRENT	<u>97,648,026</u>
Total liabilities	<u><u>\$ 102,203,498</u></u>
Net position:	
Restricted	<u><u>\$ 103,215,062</u></u>
Operating revenue:	
Charges for services	\$ 674,808
Operating expenses:	
General and administrative	215,374
Interest on bonds	<u>3,990,478</u>
Operating loss:	<u><u>(3,531,044)</u></u>
Nonoperating revenues (expenses):	
Interest and investment revenue, net of arbitrage	181,145
Transfers (net)	<u>(3,561)</u>
Change in net position	(3,353,460)
Beginning net position	<u>106,568,522</u>
Ending net position	<u><u>\$ 103,215,062</u></u>
Cash flows:	
Net cash provided (used) by:	
Operating activities	\$ 4,237,528
Noncapital financing activities	(3,698,183)
Investing activities	165,821
Beginning cash and cash equivalents	<u>18,971,234</u>
Ending cash and cash equivalents	<u><u>\$ 19,676,400</u></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,			
	2018	2017	2016	2015
The Council's proportion (percentage) of the net pension liability	0.0129%	0.0194%	0.0222%	0.0209%
The Council's proportionate share of the net pension liability	\$ 55,576	\$ 178,377	\$ 123,848	\$ 77,670
The Council's covered payroll	\$ 181,050	\$ 277,162	\$ 301,770	\$ 257,684
The Council's proportionate share of the net pension's liability as a percentage of its covered payroll	30.70%	64.36%	41.04%	30.14%
Plan fiduciary net position as a percentage of the total pension liability	93.67%	86.11%	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.

**THE WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**SCHEDULE OF CONTRIBUTIONS TO THE PERS**

	Years Ended June 30					
	2018	2017	2016	2015	2014	2013
Statutorily required contribution	\$ 26,387	\$ 21,726	\$ 37,417	\$ 42,090	\$ 37,400	\$ 32,210
Contributions in relation to the statutorily required contribution	(26,387)	(21,726)	(37,417)	(42,090)	(37,400)	(32,210)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
The Council's covered payroll	\$ 239,873	\$ 181,050	\$ 277,162	\$ 301,770	\$ 257,684	\$ 232,969
Contributions as a percentage of covered payroll	11.00%	12.00%	13.50%	13.95%	14.51%	13.83%

**THE WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**

**Retiree Health Benefit Trust**

	Year Ended June 30, 2018
The Council's proportion (percentage) of the net OPEB liability	0.00205206%
The Council's proportionate share of the net OPEB liability	\$ 50,460
The State's proportionate share of the net OPEB liability associated with the Council	<u>10,365</u>
Total proportionate share of the net OPEB liability associated with the Council	<u>\$ 60,825</u>
The Council's covered employee payroll	\$ 67,537
The Council's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	74.71%
Plan fiduciary net position as a percentage of the total OPEB liability	25.10%

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

**THE WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**SCHEDULE OF CONTRIBUTIONS TO THE RHBT**

	Year Ended June 30, 2018
Statutorily required contribution	\$ 3,345
Contributions in relation to the statutorily required contribution	<u>(3,345)</u>
Contribution deficiency (excess)	<u>\$ -</u>
The Council's covered employee payroll	\$ 42,914
Contributions as a percentage of covered employee payroll	7.79%

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

#### **Note 1. Trend Information Presented**

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

#### **Note 2. OPEB Changes in Assumptions**

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

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

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

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

#### **Note 3. Pension Plan Amendments**

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. A member may retire with the pension reduced actuarially if the member is at least age 55 and has at least 10 years of contributory service, or at any age with 30 years of contributory service. For employees hired July 1, 2015 and later, qualification for normal retirement is 62 with 10 years of service. A member hired after July 1, 2015 may retire with the pension reduced actuarially if the member is between ages 60 and 62 with at least ten years of contributory service, between ages 57 and 62 with at least twenty years of contributory service, or between ages 55 and 62 with at least thirty years of contributory service.

(Continued)

**THE WEST VIRGINIA INFRASTRUCTURE AND JOBS DEVELOPMENT COUNCIL**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

**Note 3. Pension Plan Amendments**

- The straight life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. For employees hired prior to July 1, 2015, average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. For all employees hired July 1, 2015 and later average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings.
- For employees hired prior to July 1, 2015, terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired July 1, 2015 and later, this age increases to 64 with at least ten years of contributory service, or age 63 with at least twenty years of contributory service.
- For all employees hired prior to July 1, 2015, employees are required to contribute 4.5% of annual earnings. All employees hired July 1, 2015 and later, are required to contribute 6% of annual earnings.

**Note 4. Pension Plan Assumptions**

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

	<u>2015-2017</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	3.0% (2016 and 2017); 1.9% (2015)	2.2%
Mortality rates	Active-RP- 2000 Non-Annuitant tables, Scale AA fully generational Healthy males - 110% of RP- 2000 Non-Annuitant, Scale AA fully generational 2000 Non-Annuitant, Scale AA Healthy females - 1971 GAM Healthy females - 101% of RP- 2000 Non-Annuitant, Scale AA fully generational Disabled males – 96% of RP-2000 Disabled Annuitant, Scale AA fully generational Disabled females -107% of RP-2000 Disabled Annuitant, Scale AA fully generational	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 - .67	0 - .8%



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of the West Virginia Infrastructure and Jobs Development Council (the Council), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated October 9, 2018.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia  
October 9, 2018