

Audited Financial Statements

West Virginia Water Development Authority

Year Ended June 30, 2016

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

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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying financial statements of the West Virginia Water Development Authority (the Authority), a component unit of the State of West Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the schedule of proportionate share of the net pension liability and the schedule of contributions to the PERS on pages 32 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Charleston, West Virginia  
October 25, 2016

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

## INTRODUCTION

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

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

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

This discussion and analysis of the Authority's financial activities for the year ended June 30, 2016, is designed to assist the reader in focusing on significant financial issues and activities of the Authority and to identify significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements, which begin on page 8.

## USING THIS REPORT

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

## FINANCIAL HIGHLIGHTS

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

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

**FINANCIAL HIGHLIGHTS (Continued)**

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

**THE AUTHORITY AS A WHOLE**

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

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

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

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

**Total assets** decreased \$6.4 million or 2%. Decreases to assets were the result of the use of assets to fund interest expense of \$8.4 million on bonds payable, scheduled principal payments on bonds payable of \$8.0 million, and general and administrative expenses of \$1.7 million. The decrease to assets were substantially offset by operating revenues including revenues from interest on revenue bonds receivable reflected in the financial statements as "charges for services" of \$13.0 million and interest on investments of \$226 thousand. During the year, the Authority disbursed \$285 thousand in loans from unrestricted resources available to the authority.

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

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

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

**Restricted net position** increased \$1.4 million as a result of decreases in the amount of loan disbursements from restricted net position, combined with cash collections on loan repayments in excess of cash disbursements for debt service.

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

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

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

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

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

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

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

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

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

**DEBT ADMINISTRATION**

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

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

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

As of June 30, 2016, Assured Guaranty, the bond insurer for the West Virginia Water Development Authority, Water Development Revenue Bonds (Loan Program IV) 2005 Series A, had a Standard & Poor's rating of AA.

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

### **DEBT ADMINISTRATION (Continued)**

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

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

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

### **ECONOMIC FACTORS THAT MAY AFFECT THE AUTHORITY**

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

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

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

### **CONTACTING THE AUTHORITY'S MANAGEMENT**

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

## STATEMENT OF NET POSITION

June 30, 2016

ASSETS

## Current assets:

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

## Restricted current assets:

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

## Noncurrent assets:

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

## Restricted assets:

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

Total assets	<u>\$ 254,561,114</u>
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DEFERRED OUTFLOWS OF RESOURCES

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

(Continued)

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

STATEMENT OF NET POSITION  
(Continued)

June 30, 2016

LIABILITIES

## Current liabilities:

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

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

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

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

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

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

Total net position	<u>\$ 63,539,716</u>
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The accompanying notes are an integral part of these financial statements.

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

Year Ended June 30, 2016

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

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

(Continued)

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS  
(Continued)

Year Ended June 30, 2016

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

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

**1 - REPORTING ENTITY**

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

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

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

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

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

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

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

Cash Equivalents

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

Investments

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

Restricted Assets

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

Capital Assets

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

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

Accrued Employee Benefits

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

Bond Premiums, Discounts, and Issuance Costs

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

The United States Internal Revenue Code of 1986, as amended (the "Code"), prescribes restrictions applicable to the Authority as issuer of Water Development Revenue and Refunding Bonds. Among those include restrictions on earnings on the bond proceeds. The Code requires payment to the federal government of investment earnings on certain bond proceeds in excess of the amount that would have been earned if the proceeds were invested at a rate equal to the yield on the bonds. As of June 30, 2016, the Authority is not liable to the federal government as a result of arbitrage.

Deferred Outflows of Resources / Deferred Inflows of Resources

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

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

Pension

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

Net Position

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

**3 - DEPOSIT AND INVESTMENT RISK DISCLOSURES**

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

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

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

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

Concentration of Credit Risk

As of June 30, 2016, the Authority had investment balances with the following issuers which are greater than or equal to 5 percent of the investment balance:

Type	Issuer	Percentage of Investments
Money Markets	Federated Prime Cash Obligations	90%

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

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

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

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

Credit Risk

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

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

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

Custodial Credit Risk

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

Cash consisted of the following at June 30, 2016:

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

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

A reconciliation of the amounts disclosed as cash and investments included in this Note to cash and cash equivalents, restricted cash and cash equivalents, and investments in the Statement of Net Assets as of June 30, 2016, is as follows:

## Deposits:

Cash and cash equivalents as reported on the Statement of Net Position	\$ 18,412,355
Add: restricted cash and cash equivalents	14,009,070
Less: cash equivalents and restricted cash equivalents disclosed as investments	<u>(32,258,659)</u>
Total cash as disclosed in this Note	<u>\$ 162,766</u>

## Investments:

Investments as reported on the Statement of Net Position	\$ 1,200,000
Add: restricted investments	2,507,600
Add: cash equivalents and restricted cash equivalents disclosed as investments	<u>32,258,659</u>
Total investments as disclosed in this Note	<u>\$ 35,966,259</u>

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

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

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

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

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

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

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

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

**5 - DUE FROM OTHER AGENCIES**

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

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

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

**7 - CAPITAL ASSETS**

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

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

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

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

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

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

**Loan Program I**

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

**Loan Program II**

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

**Loan Program IV**

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

The Authority has defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust accounts' assets and the liabilities for the defeased bonds are not included in the Authority's financial statements. At June 30, 2016, there are \$2,080,000 in defeased bonds outstanding.

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

**9 - PENSION PLAN***Plan Description*

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

*Benefits Provided*

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

*Contributions*

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

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

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

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

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

Year ended June 30,

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

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

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

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

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

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

*Discount Rate*

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

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

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

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

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

Funding Policy

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

The Authority's contributions to the trust fund for the years ended June 30, 2016, 2015, and 2014 were \$532, \$154, and \$0, respectively, and the billed ARC's were \$19,152, \$16,446, and \$6,768. The Authority's contributions represent 2.8%, 0.9%, and 0% of the ARC for the years then ended, respectively. These amounts were transferred to the OPEB Plan which resulted in accrued employee benefits of \$217,174 and \$198,554, respectively, which are included in the Authority's liabilities as of June 30, 2016 and 2015.

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

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

**12 - RISK MANAGEMENT**

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

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

The Authority participates in the West Virginia Board of Risk and Insurance Management to obtain coverage for general liability, property damage, business interruption, errors and omissions, and natural disasters. Coverage is offered in exchange for an annual premium. There were no changes in coverage or claims in excess of coverage for the year ended June 30, 2016.

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

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

**14 - COMMITMENT**

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

**15 - UNCERTAINTY**

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

**16 - SEGMENT INFORMATION**

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

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

(Continued)

**16 - SEGMENT INFORMATION (Continued)**

<u>ASSETS</u>	<u>Loan Program I</u>	<u>Loan Program II</u>	<u>Loan Program III</u>
Current - unrestricted	\$ 2,465,425	\$ 6,972,950	\$ 598,378
Noncurrent - unrestricted	-	-	-
Restricted - current and noncurrent	18,056,237	113,310,931	27,264,742
Capital assets, net	-	-	-
Total assets	<u>\$ 20,521,662</u>	<u>\$ 120,283,881</u>	<u>\$ 27,863,120</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred outflows of resources related to pension	-	-	-
Deferred loss on bond refundings	\$ 2,607,707	\$ 6,710,878	\$ 358,707
Total deferred outflows	<u>\$ 2,607,707</u>	<u>\$ 6,710,878</u>	<u>\$ 358,707</u>
 <u>LIABILITIES</u>			
Current	\$ 1,811,854	\$ 6,266,138	\$ 1,091,738
Long-term	16,158,653	107,131,925	23,862,330
Total liabilities	<u>\$ 17,970,507</u>	<u>\$ 113,398,063</u>	<u>\$ 24,954,068</u>
 <u>DEFERRED INFLOWS</u>			
Deferred inflows of resources related to pension	\$ -	\$ -	\$ -
 <u>NET POSITION</u>			
Restricted	\$ 4,505,291	\$ 12,889,884	\$ 3,761,119
Unrestricted	653,571	706,812	(493,360)
Investment in capital assets	-	-	-
Total net position	<u>\$ 5,158,862</u>	<u>\$ 13,596,696</u>	<u>\$ 3,267,759</u>
 <u>OPERATING REVENUE</u>			
Charges for services and miscellaneous revenue	\$ 1,495,140	\$ 7,378,689	\$ 1,540,838
 <u>OPERATING EXPENSES</u>			
Depreciation and amortization	-	11,961	-
General and administrative	-	-	-
Allocation of general and administrative	139,043	863,502	192,797
<u>OPERATING INCOME</u>	1,356,097	6,503,226	1,348,041
 <u>NONOPERATING REVENUES (EXPENSES):</u>			
Interest and investment revenue	1,534	60,865	2,437
Interest expense	(700,536)	(4,734,534)	(855,813)
Transfers (net)	137,107	(694,551)	192,798
Change in net position	794,202	1,135,006	687,463
Beginning net position	<u>4,364,660</u>	<u>12,461,690</u>	<u>2,580,296</u>
Ending net position	<u>\$ 5,158,862</u>	<u>\$ 13,596,696</u>	<u>\$ 3,267,759</u>
 Net cash provided by (used in):			
Operating activities	\$ 2,117,741	\$ 9,455,876	\$ 1,970,974
Capital and related financing activities	-	-	-
Noncapital financing activities	(2,118,776)	(9,702,744)	(1,494,806)
Investing activities	1,280	882,763	1,900
Beginning cash and cash equivalents	<u>2,146,525</u>	<u>6,686,879</u>	<u>4,108,548</u>
Ending cash and cash equivalents	<u>\$ 2,146,770</u>	<u>\$ 7,322,774</u>	<u>\$ 4,586,616</u>

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

(Continued)

**16 - SEGMENT INFORMATION (Continued)**

<u>ASSETS</u>	<u>Loan Program IV</u>	<u>Supplemental</u>	<u>Total</u>
Current - unrestricted	\$ 1,599,549	\$ 18,299,244	\$ 29,935,546
Noncurrent - unrestricted	-	11,908,331	11,908,331
Restricted - current and noncurrent	42,640,932	5,369,650	206,642,492
Capital assets - net	-	6,074,745	6,074,745
Total assets	<u>\$ 44,240,481</u>	<u>\$ 41,651,970</u>	<u>\$ 254,561,114</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred outflows of resources related to pension	\$ -	\$ 213,676	\$ 213,676
Deferred loss on bond refundings	-	-	9,677,292
Total deferred outflows	<u>\$ -</u>	<u>\$ 213,676</u>	<u>\$ 9,890,968</u>
<u>LIABILITIES</u>			
Current	\$ 1,274,700	\$ 102,623	\$ 10,547,053
Long-term	42,541,380	515,610	190,209,898
Total liabilities	<u>\$ 43,816,080</u>	<u>\$ 618,233</u>	<u>\$ 200,756,951</u>
<u>DEFERRED INFLOWS</u>			
Deferred inflows of resources related to pension	\$ -	\$ 155,415	\$ 155,415
<u>NET POSITION</u>			
Restricted	\$ 99,552	\$ 4,912,301	\$ 26,168,147
Unrestricted	324,849	30,104,952	31,296,824
Investment in capital assets	-	6,074,745	6,074,745
Total net position	<u>\$ 424,401</u>	<u>\$ 41,091,998</u>	<u>\$ 63,539,716</u>
<u>OPERATING REVENUE</u>			
Charges for services and miscellaneous revenue	\$ 2,221,574	\$ 658,172	\$ 13,294,413
<u>OPERATING EXPENSES</u>			
Depreciation and amortization	8,314	1,336,835	1,357,110
General and administrative	-	1,684,895	1,684,895
Allocation of general and administrative	347,403	(1,542,745)	-
<u>OPERATING INCOME</u>	1,865,857	(820,813)	10,252,408
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Interest and investment revenue	144	156,150	221,130
Interest expense	(2,072,915)	-	(8,363,798)
Transfers (net)	347,180	17,466	-
Change in net position	140,266	(647,197)	2,109,740
Beginning net position	284,135	41,739,195	61,429,976
Ending net position	<u>\$ 424,401</u>	<u>\$ 41,091,998</u>	<u>\$ 63,539,716</u>
Net cash provided by (used in):			
Operating activities	\$ 2,969,478	\$ 2,385,418	\$ 18,899,487
Capital and related financing activities	-	(254,994)	(254,994)
Noncapital financing activities	(2,969,606)	-	(16,285,932)
Investing activities	144	128,209	1,014,296
Beginning cash and cash equivalents	54,510	16,052,106	29,048,568
Ending cash and cash equivalents	<u>\$ 54,526</u>	<u>\$ 18,310,739</u>	<u>\$ 32,421,425</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,	
	2016	2015
Authority's proportion (percentage) of the net pension liability	0.043182%	0.040945%
Authority's proportionate share of the net pension liability	\$ 241,080	\$ 151,290
Authority's covered employee payroll	\$ 587,420	\$ 507,753
Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll	41.040%	29.796%
Plan fiduciary net position as a percentage of the total pension liability	91.29%	93.98%

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

## THE WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

## SCHEDULE OF CONTRIBUTIONS TO THE PERS

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

## WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

**1 - TREND INFORMATION PRESENTED**

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

**2 - PLAN AMENDMENT**

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

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

**3 - CHANGES IN ASSUMPTIONS**

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

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