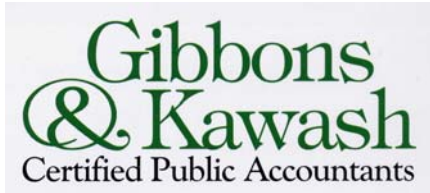


Audited Financial Statements

West Virginia Water Development Authority

Year Ended June 30, 2011



Audited Financial Statements

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

Year Ended June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of net assets of the West Virginia Water Development Authority, (the Authority), a component unit of the State of West Virginia, as of June 30, 2011, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2011, on our consideration of the Authority's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

J. Williams & Kanash, A.C.

October 13, 2011

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 plans to hire five additional employees in the next fiscal year, including one to two accounting personnel. Due to the increased number of employees as well as the acquisition of an automated financial, loan and bond management information system, the Board approved the purchase of a tract of land and has operationally budgeted for the construction of a new office building, which is scheduled to begin in early fiscal year 2012.

The Authority maintains a variety of programs to provide long-term, short-term and private-activity financing at favorable interest rates for design, construction and/or acquisition of wastewater and/or water systems. Generally, the Authority's programs are funded with proceeds from water development bonds issued by the Authority. Moneys in the various programs are loaned to municipalities, public service districts and other political subdivisions through the purchase of revenue bonds or notes issued by these local governmental agencies. The loans are repaid from the revenues of the wastewater and/or water systems or other permanent financing. Because the Authority's bonds are considered a moral obligation of the State, the aggregate principal amount of bonds and/or notes issued by the Authority may not exceed \$500 million outstanding at any time; provided that before the Authority issues bonds or notes in excess of \$440 million, the Legislature must pass a resolution authorizing this action. On March 12, 2011, the State Legislature enacted Senate Bill 245, which provides an exception to the \$500 million ceiling for the limited purpose of providing grants for capital improvements for designated projects in the Chesapeake Bay and Greenbrier Watershed areas. These bonds or notes in the aggregate amount are not to exceed \$180 million and would be repaid from additional special appropriated lottery revenue.

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, 2011, 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 Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets report the Authority's net assets and changes in them. The Authority's net assets, which is the difference between assets and liabilities is one way to measure the Authority's financial health or financial position.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued
(Unaudited)

FINANCIAL HIGHLIGHTS

- Total assets of the Authority decreased \$5.8 million or 2%. There was a decrease in total liabilities of \$6.8 million or 3%. Total net assets increased \$1.05 million or 2%.
- Total revenues had a decrease of \$87 thousand.
- Total expenses increased \$895 thousand. This was primarily the combined result of a \$263 thousand decrease in interest expense and a \$1.16 million increase in operating expenses.

THE AUTHORITY AS A WHOLE

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

Table 1
Net Assets

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Assets:			
Current assets	\$ 23,391,226	\$ 25,401,579	\$ (2,010,353)
Noncurrent assets	<u>259,739,415</u>	<u>263,500,374</u>	<u>(3,760,959)</u>
 Total assets	 <u>\$ 283,130,641</u>	 <u>\$ 288,901,953</u>	 <u>\$ (5,771,312)</u>
Liabilities:			
Current liabilities	\$ 8,629,412	\$ 9,181,976	\$ (552,564)
Long-term debt outstanding	<u>213,495,372</u>	<u>219,769,432</u>	<u>(6,274,060)</u>
 Total liabilities	 <u>\$ 222,124,784</u>	 <u>\$ 228,951,408</u>	 <u>\$ (6,826,624)</u>
Net Assets:			
Invested in capital assets	\$ 2,585,614	\$ 1,004,191	\$ 1,581,423
Restricted	30,873,588	28,769,949	2,103,639
Unrestricted	<u>27,546,655</u>	<u>30,176,405</u>	<u>(2,629,750)</u>
 Total net assets	 <u>\$ 61,005,857</u>	 <u>\$ 59,950,545</u>	 <u>\$ 1,055,312</u>

Total assets decreased \$5.8 million or 2%. Decreases to assets were the result of the use of assets to fund interest expense of \$12.2 million on bonds payable, scheduled principal payments on bonds payable of \$7.1 million and general and administrative expenses of \$2.3 million. The combined effect of decreases to assets of \$21.6 million was substantially offset by operating revenues including revenues from interest on revenue bonds receivable reflected in the financial statements as "charges for services" of \$15.2 million and interest on investments of \$435 thousand. During the year, the Authority disbursed \$1.8 million in loans from unrestricted resources available to the authority, of which \$1.2 million was related to two wastewater/water projects that were closed in fiscal year 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued
(Unaudited)

THE AUTHORITY AS A WHOLE (Continued)

Total liabilities decreased approximately \$6.8 million. The majority of the decrease was in revenue bonds payable, which are presented on the balance sheet net of unamortized premiums, discounts, issue costs and deferred losses on advance refundings.

Unrestricted net assets decreased \$2.6 million, primarily explained by an increase in capital assets of \$1.6 million and an increase in operating expenses of \$1.16 million.

Restricted net assets increased \$2.1 million as a result of decreases in the amount of loan disbursements from restricted net assets, combined with cash collections on loan repayments in excess of cash disbursements for debt service.

Table 2
Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Revenues:			
Operating Revenues:			
Charges for services	\$ 15,247,137	\$ 15,329,984	\$ (82,847)
Other	<u>26,600</u>	<u>25,402</u>	<u>1,198</u>
Total operating revenues	<u>15,273,737</u>	<u>15,355,386</u>	<u>(81,649)</u>
Nonoperating revenues:			
Interest and investment revenue, net of arbitrage	<u>434,698</u>	<u>440,074</u>	<u>(5,376)</u>
Total revenues	15,708,435	15,795,460	(87,025)
Expenses:			
Operating expenses	2,500,273	1,342,421	1,157,852
Nonoperating expenses:			
Interest expense	<u>12,152,850</u>	<u>12,415,883</u>	<u>(263,033)</u>
Total expenses	<u>14,653,123</u>	<u>13,758,304</u>	<u>894,819</u>
Change in net assets	1,055,312	2,037,156	(981,844)
Beginning net assets	<u>59,950,545</u>	<u>57,913,389</u>	<u>2,037,156</u>
Ending net assets	<u>\$ 61,005,857</u>	<u>\$ 59,950,545</u>	<u>\$ 1,055,312</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued
(Unaudited)

THE AUTHORITY AS A WHOLE (Continued)

Charges for services decreased \$83 thousand. This is primarily due to only two loans closing during the current year totaling \$1.2 million with comparable interest rates to loans already in the portfolio.

Interest and investment revenue, net of arbitrage decreased \$5 thousand, due to comparable low yielding short term interest rates, available to the Authority from period to period on comparable asset balances.

Operating expenses increased \$1.16 million from the prior year. This is primarily the result of an increase in non-capital expenditures approved by the Board for the implementation of an automated financial, loan and bond management information system. This will provide the Authority with its first automated system. The system is expected to be fully operational by the second quarter of fiscal year 2012.

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 \$234 million in revenue and refunding bonds outstanding versus \$241 million in the prior year, a decrease of 3%.

As of June 30, 2011, Assured Guaranty, previously Financial Security Assurance, 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+.

As of June 30, 2011, Ambac Financial Group, the bond insurer for the West Virginia Water Development Authority, Water Development Revenue Refunding Bonds (Loan Program) 2002 Series A and 2003 Series A-I; Water Development Revenue Bonds (Loan Program II) 2003 Series A; Water Development Revenue Refunding Bonds (Loan Program II) 2003 Series B, 2003 Series C and 2003 Series D; Water Development Revenue Bonds (Loan Program III) 2000 Series A and 2000 Series B; and Water Development Revenue Bonds (Loan Program IV) 2005 Series B-IV had a Standard & Poor's rating of R.

As of June 30, 2011, Financial Guaranty Insurance Company, the bond insurer for the West Virginia Water Development Authority, Water Development Revenue Refunding Bonds (Loan Program II) 2005 Series A-II and B-II and 2006 Series A-II had no rating by Standard & Poor's.

The downgrade of Financial Guaranty Insurance Company and Ambac did not result in any event of default and does not affect the fixed interest rates the Authority pays on its bonds. The Authority's outstanding bonds were originally issued with a rating of AAA by Standard & Poor's on the understanding that the standard insurance

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued (Unaudited)

DEBT ADMINISTRATION (Continued)

policies purchased by the Authority guaranteed the timely payment of principal of 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 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, continues to monitor the status of its bond insurers and is considering options for the issuance of future bonds 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." The Authority's investment income was affected during the current year by a continued decline in short-term interest rates.

CONTACTING THE AUTHORITY'S MANAGEMENT

This financial report is designed to provide a general overview of the Authority's finances and to show the Authority's accountability for the money it receives as well as its ability to pay debt service. If you have questions about this report or need additional information, contact the Executive Director or Secretary/Treasurer, West Virginia Water Development Authority, 180 Association Drive, Charleston, West Virginia 25311, call 304-414-6500, extension 108; or visit the Authority's website (www.wwwda.org).

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$ 10,404,208
Receivables:	
Revenue bonds, net of unamortized discount of \$49,346	6,805,908
Supplemental revenue bonds	579,074
Interest	3,579,540
Administrative fees	1,851
Due from other agencies	<u>488,624</u>
Total unrestricted current assets	21,859,205

Restricted current assets:

Investments	<u>1,532,021</u>
Total current assets	<u>23,391,226</u>

Noncurrent assets:

Receivables:	
Revenue bonds	12,116,862
Asset held on behalf of others	1,000,000
Investments	1,200,000
Capital assets, net	<u>2,585,614</u>
Total unrestricted noncurrent assets	<u>16,902,476</u>

Restricted assets:

Cash and cash equivalents	19,331,871
Receivables, net:	
Revenue bonds, net of unamortized discount of \$1,130,684	215,268,979
Supplemental revenue bonds	<u>8,236,089</u>
Total restricted noncurrent assets	<u>242,836,939</u>
Total assets	<u>\$ 283,130,641</u>

LIABILITIES

Current liabilities:

Accounts payable	\$ 35,819
Current portion of revenue bonds payable, net of unamortized premium of \$144,197, discounts and issue costs of \$185,686 and deferred losses on refundings of \$740,935	6,147,575
Accrued interest payable	<u>2,446,018</u>
Total current liabilities	<u>8,629,412</u>

Noncurrent liabilities:

Accrued employee benefits	31,872
Asset held on behalf of others	1,000,000
Liabilities payable from restricted assets:	
Arbitrage rebate payable	35,076
Noncurrent portion of revenue bonds payable, net of unamortized premium of \$3,064,512, discounts and issue costs of \$4,055,674 and deferred losses on refundings of \$13,590,415	<u>212,428,424</u>
Total noncurrent liabilities	<u>213,495,372</u>
Total liabilities	<u>222,124,784</u>

NET ASSETS

Restricted	30,873,588
Unrestricted	27,546,655
Invested in capital assets	<u>2,585,614</u>
Total net assets	<u>\$ 61,005,857</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 ASSETS

Year Ended June 30, 2011

Operating revenues:	
Charges for services	\$ 15,247,137
Miscellaneous	<u>26,600</u>
Total operating revenues	<u>15,273,737</u>
Operating expenses:	
Depreciation and amortization	217,384
General and administrative	<u>2,282,889</u>
Total operating expenses	<u>2,500,273</u>
Operating income	<u>12,773,464</u>
Nonoperating revenues (expenses):	
Interest and investment revenue, net of arbitrage	434,698
Interest expense	<u>(12,152,850)</u>
Total nonoperating expenses	<u>(11,718,152)</u>
Change in net assets	1,055,312
Total net assets, beginning of year	<u>59,950,545</u>
Total net assets, end of year	<u>\$ 61,005,857</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, 2011

Cash flows from operating activities	
Receipts of principal on bonds receivable	\$ 6,604,979
Receipts of interest on bonds receivable	15,233,110
Receipts of administrative fees on bonds receivable	26,557
Receipts of reimbursements from other agencies	3,065,391
Disbursements from issuance of bonds receivable	(1,805,410)
Disbursements of general and administrative expense	(2,115,470)
Disbursements on behalf of employees	(363,254)
Disbursements on behalf of other agencies	<u>(1,453,544)</u>
Net cash provided by operating activities	<u>19,192,359</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(1,613,123)</u>
Net cash used in capital and related financing activities	<u>(1,613,123)</u>
Cash flows from noncapital financing activities:	
Principal paid on revenue and refunding bonds	(7,160,000)
Interest paid on revenue and refunding bonds	<u>(11,616,320)</u>
Net cash used in noncapital financing activities	<u>(18,776,320)</u>
Cash flows from investing activities:	
Investment earnings	<u>288,860</u>
Net cash provided by investing activities	<u>288,860</u>
Net decrease in cash and cash equivalents	(908,224)
Cash and cash equivalents, beginning of year	<u>30,644,303</u>
Cash and cash equivalents, end of year	<u>\$ 29,736,079</u>

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

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 12,773,464
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	31,700
Amortization expense	185,684
Changes in assets and liabilities:	
Due from other agencies	1,611,847
Supplemental revenue bonds receivable	579,073
Revenue bonds receivable	4,220,496
Accrued interest receivable	(14,027)
Administrative fees receivable	(43)
Accounts payable	(211,896)
Accrued employee benefits	16,061
Net cash provided by operating activities	<u>\$ 19,192,359</u>

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

1 - REPORTING ENTITY

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

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

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

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

2 - SIGNIFICANT ACCOUNTING POLICIESBasis 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. As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)**2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**Basis of Presentation (Continued)

use Proprietary Fund Accounting,” the Authority has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, included in the FASB Accounting Standards Codification, unless the GASB specifically adopts such FASB statements, interpretations, or Accounting Standards Updates.

The Authority is included in the State’s basic 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 basic 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.

Allowance for Uncollectible Loans and Service Charges

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

Investments

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

Restricted Assets

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

Capital Assets

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method over the 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.

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)**2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**Capital Assets (Continued)

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 in accordance with GASB Statement No. 45.

Bond Discounts and Issuance Costs

Bond discounts and issuance costs 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.

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, and a liability for that amount has been recorded at June 30, 2011.

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, 2011, the Authority had the following investments and maturities:

Type	Investment Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
Repurchase Agreements	\$ 1,532,021	\$ -	\$ 1,532,021	\$ -	\$ -
U.S. Treasury	1,200,000	-	-	1,200,000	-
Money Markets	29,548,720	29,548,720	-	-	-
	<u>\$32,280,741</u>	<u>\$29,548,720</u>	<u>\$ 1,532,021</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, 2011, 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	92%

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)**3 - DEPOSIT AND INVESTMENT RISK DISCLOSURES (Continued)**Concentration of Credit Risk (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, 2011:

<u>Security Type</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Standard & Poors</u>	<u>Fair Value</u>
Money Markets	AAA	Aaa	AAAm	<u>\$ 29,548,720</u>

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

Additionally, at June 30, 2011, the Authority's investments in repurchase agreements, includes underlying securities of \$728,939 in federal agency obligations backed by the full faith and credit of the United States and \$1,215,488 in mortgage-backed securities guaranteed by different federal agencies and which hold an implied AAA rating due to the guaranty of payment by the respective federal agency.

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

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

Custodial Credit Risk

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

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

The Authority's investment guidelines put certain restrictions on repurchase agreements, including the following: the Authority can only enter into repurchase agreements with financial institutions having a credit rating of at least A/A; collateral is limited to direct federal, federally guaranteed or federal agency obligations; collateral is required to be delivered to a third-party custodian, the Authority or the trustee; and, the financial institution must guarantee the aggregate market value of the collateral will equal or exceed the outstanding repurchase agreement by the margin specified in the respective repurchase agreement. As of June 30, 2011, the Authority held no repurchase agreements that were not fully collateralized.

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

Cash consisted of the following at June 30, 2011:

Operating cash on hand	\$ 321
Cash on deposit with State Treasurer	<u>187,038</u>
Total	<u>\$ 187,359</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, 2011, is as follows:

Deposits:

Cash and cash equivalents as reported on the Statement of Net Assets	\$ 10,404,208
Add: restricted cash and cash equivalents	19,331,871
Less: cash equivalents and restricted cash equivalents disclosed as investments	<u>(29,548,720)</u>
Total cash as disclosed in this Note	<u>\$ 187,359</u>

Investments:

Investments as reported on the Statement of Net Assets	\$ 1,200,000
Add: restricted investments	1,532,021
Add: cash equivalents and restricted cash equivalents disclosed as investments	<u>29,548,720</u>
Total investments as disclosed in this Note	<u>\$ 32,280,741</u>

4 - DUE FROM OTHER AGENCIES

Certain agencies of the State were indebted to the Authority at June 30, 2011, in connection with services performed by the Authority on behalf of the agencies. Amounts due the Authority at June 30, 2011, are as follows:

	<u>Due From</u>
West Virginia Infrastructure and Jobs Development Council, Net	\$ 181,065
Department of Environmental Protection Clean Water State Revolving Fund	272,434
Bureau for Public Health Drinking Water Treatment Revolving Fund	<u>35,125</u>
	<u>\$ 488,624</u>

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

5 - ALLOWANCE FOR UNCOLLECTIBLE LOANS AND SERVICE CHARGES

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

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

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

The Authority established guidelines to set up an allowance for estimated uncollectible amounts to be applied to loans receivable in the Revolving Loan Fund program as of June 30, 1981, and thereafter. The establishment of the allowance for financial reporting purposes does not affect the loan agreements that exist between the Authority and the various entities. The Revolving Loan Fund program balance at June 30, 2011, is comprised of the following:

Loans receivable	\$ 381,058
Service charges receivable	3,670
Allowance for uncollectible	<u>(384,728)</u>
	<u>\$ -</u>

6 - REVENUE BONDS RECEIVABLE

As of June 30, 2011, the face value of revenue bonds of municipalities, public service districts and other political subdivisions purchased with proceeds from Water Development Revenue Bonds was \$221,302,178. 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.

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)**7 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets, not being depreciated:				
Land	\$ -	\$ 617,273	\$ -	\$ 617,273
Capital assets, being depreciated:				
Furniture and equipment	513,810	993,426	-	1,507,236
Building	963,493	-	-	963,493
Building improvements	87,863	2,424	-	90,287
Intangible assets (software)	26,529	-	-	26,529
Total capital assets, being depreciated	<u>1,591,695</u>	<u>995,850</u>	<u>-</u>	<u>2,587,545</u>
Less accumulated depreciation for:				
Furniture and equipment	241,535	-	-	241,535
Building	311,123	24,089	-	335,212
Building improvements	18,927	-	-	18,927
Total accumulated depreciation	<u>571,585</u>	<u>24,089</u>	<u>-</u>	<u>595,674</u>
Less accumulated amortization for:				
Intangible assets (software)	15,919	7,611	-	23,530
Total accumulated amortization	<u>15,919</u>	<u>7,611</u>	<u>-</u>	<u>23,530</u>
Total capital assets, net	<u>\$ 1,004,191</u>	<u>\$ 1,581,423</u>	<u>\$ -</u>	<u>\$ 2,585,614</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, 2011:

Revenue bonds payable at June 30, 2010	\$ 241,100,000
Bonds retired	<u>(7,160,000)</u>
Revenue bonds payable at June 30, 2011	<u>\$ 233,940,000</u>

Revenue and refunding bonds outstanding at June 30, 2011, were as follows:

<u>Series</u>	<u>Final Maturity</u>	<u>Interest Rates %</u>	<u>Balance</u>
2000 AIII	07/01/39	5.400-6.375	\$ 16,520,000
2000 BIII	07/01/40	4.900-5.875	9,935,000
2002 AI	11/01/25	3.850-5.000	5,490,000
2003 AII	11/01/23	2.400-4.400	7,195,000
2003 AI	11/01/26	2.750-5.250	19,375,000
2003 BII	11/01/29	2.750-5.250	46,115,000
2003 CII	11/01/33	2.750-5.000	15,370,000
2003 DII	11/01/24	2.750-4.850	4,205,000
2005 AIV	11/01/44	3.250-4.650	35,495,000
2005 AII	11/01/33	3.500-5.000	14,810,000
2005 BII	11/01/33	3.500-5.000	11,020,000
2005 BIV	11/01/44	3.750-5.125	11,090,000
2006 AII	11/01/39	3.750-5.000	<u>37,320,000</u>
			<u>\$ 233,940,000</u>

Loan Program I includes Series 2002 A and 2003 A Water Development Revenue Refunding Bonds. Loan Program II includes Series 2003 A Water Development Revenue Bonds and Series 2003 B, 2003 C, 2003 D, 2005 A, 2005 B and 2006 A Water Development Revenue Refunding Bonds. Loan Program III includes Series 2000 A and 2000 B Water Development Revenue Bonds. Loan Program IV includes Series 2005 A and 2005 B 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, 2011, are as follows:

Loan Program I

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/01/11	\$ 1,355,000	\$ 1,137,922	\$ 2,492,922
11/01/12	1,385,000	1,084,009	2,469,009
11/01/13	1,435,000	1,027,315	2,462,315
11/01/14	1,460,000	967,343	2,427,343
11/01/15	<u>1,530,000</u>	<u>904,220</u>	<u>2,434,220</u>
	<u>7,165,000</u>	<u>5,120,809</u>	<u>12,285,809</u>
11/01/16-11/01/20	6,325,000	2,916,958	9,241,958
11/01/21-11/01/25	7,865,000	1,931,959	9,796,959
11/01/26	<u>3,510,000</u>	<u>171,894</u>	<u>3,681,894</u>
	<u>17,700,000</u>	<u>5,020,811</u>	<u>22,720,811</u>
	<u>\$ 24,865,000</u>	<u>\$ 10,141,620</u>	<u>\$ 35,006,620</u>

Loan Program II

11/01/11	\$ 4,475,000	\$ 6,378,587	\$ 10,853,587
11/01/12	4,660,000	6,178,394	10,838,394
11/01/13	4,830,000	5,967,822	10,797,822
11/01/14	5,040,000	5,744,181	10,784,181
11/01/15	<u>5,270,000</u>	<u>5,505,280</u>	<u>10,775,280</u>
	<u>24,275,000</u>	<u>29,774,264</u>	<u>54,049,264</u>
11/01/16-11/01/20	21,920,000	19,477,169	41,397,169
11/01/21-11/01/25	30,280,000	18,210,585	48,490,585
11/01/26-11/01/30	26,225,000	9,176,634	35,401,634
11/01/31-11/01/35	22,595,000	5,129,488	27,724,488
11/01/36-11/01/39	<u>10,740,000</u>	<u>1,621,250</u>	<u>12,361,250</u>
	<u>111,760,000</u>	<u>53,615,126</u>	<u>165,375,126</u>
	<u>\$ 136,035,000</u>	<u>\$ 83,389,390</u>	<u>\$ 219,424,390</u>

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

	Principal	Interest	Total
07/01/11	\$ 355,000	\$ 1,587,663	\$ 1,942,663
07/01/12	370,000	1,567,200	1,937,200
07/01/13	390,000	1,545,556	1,935,556
07/01/14	420,000	1,522,300	1,942,300
07/01/15	435,000	1,497,253	1,932,253
	<u>1,970,000</u>	<u>7,719,972</u>	<u>9,689,972</u>
07/01/16-07/01/20	2,045,000	5,696,331	7,741,331
07/01/21-07/01/25	3,335,000	6,319,750	9,654,750
07/01/26-07/01/30	4,460,000	5,163,153	9,623,153
07/01/31-07/01/35	5,960,000	3,597,639	9,557,639
07/01/36-07/01/40	8,685,000	1,491,051	10,176,051
	<u>24,485,000</u>	<u>22,267,924</u>	<u>46,752,924</u>
	<u>\$ 26,455,000</u>	<u>\$ 29,987,896</u>	<u>\$ 56,442,896</u>

Loan Program IV

07/01/11	\$ 745,000	\$ 2,230,069	\$ 2,975,069
07/01/12	770,000	2,202,319	2,972,319
07/01/13	795,000	2,173,322	2,968,322
07/01/14	825,000	2,142,619	2,967,619
07/01/15	860,000	2,109,613	2,969,613
	<u>3,995,000</u>	<u>10,857,942</u>	<u>14,852,942</u>
07/01/16-07/01/20	3,840,000	8,015,016	11,855,016
07/01/21-07/01/25	5,930,000	8,845,559	14,775,559
07/01/26-07/01/30	6,825,000	7,310,963	14,135,963
07/01/31-07/01/35	8,495,000	5,453,269	13,948,269
07/01/36-07/01/40	8,030,000	3,347,706	11,377,706
07/01/41-11/01/44	9,470,000	1,231,488	10,701,488
	<u>42,590,000</u>	<u>34,204,001</u>	<u>76,794,001</u>
	<u>\$ 46,585,000</u>	<u>\$ 45,061,943</u>	<u>\$ 91,646,943</u>

Total all loan programs	\$ 233,940,000
Add: unamortized premium	3,208,709
Less: unamortized discount, bond issue costs and deferred losses on advance refundings	<u>(18,572,710)</u>
Total all programs, net	218,575,999
Less: current portion	<u>(6,147,575)</u>
Noncurrent portion	<u>\$ 212,428,424</u>

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

In prior years, the Authority 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 liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 2011, there are \$3,990,000 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, 2011 was \$7,160,000 and \$11,616,320, respectively and principal payments and interest received on pledged notes receivable were \$6,604,979 and \$15,233,110, respectively, at June 30, 2011.

9 - PENSION PLAN

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

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

The Authority and plan members are required to contribute 12.5% and 4.5%, respectively, of annual covered salaries. The contribution requirements of the Authority and plan members are established and may be amended by State statute. The Authority's contributions to PERS for the years ended June 30, 2011, 2010 and 2009 were \$56,488, \$36,828, and \$53,583, respectively.

10 - OTHER POSTEMPLOYMENT BENEFITSPlan 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

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended, assigns the authority to establish and amend benefit provisions to the WVPEIA board of trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by calling 1-888-680-7342 or by writing to:

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

Funding Policy

The Code requires that the OPEB Plan, bill the participating employers 100% of the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. 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, 2011, 2010, and 2009 were \$15,295, \$7,124, and \$10,046, respectively, and the billed ARC's were \$105,170, \$42,100, and \$19,411 which represent 14.5%, 16.9%, and 58.7% of the ARC for the years then ended, respectively.

11 - GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended June 30, 2011, are as follows:

Personal services	\$ 379,315
Legal	207,124
Professional	1,056,435
Trustee	51,078
Employee benefits	33,601
Public employees insurance	29,868
Other employee benefits	1,637
Office supplies/printing	39,013
Building	329

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

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

Travel	76,504
Utilities	10,987
Telecommunications	38,511
Vehicle	21,188
Payroll taxes	9,893
Computer supplies	246,486
Janitorial	8,088
Miscellaneous	43,368
Rental	16,717
Administrative	2,632
Insurance	1,527
Training and development	8,588
	<u>\$ 2,282,889</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 through its participation in a commercial insurance provider and the WVPEIA. In exchange for the payment of premiums to the commercial insurance provider and WVPEIA, the Authority has transferred its risk related to job-related injuries and health coverage for employees.

The Authority participates in the West Virginia Board of Risk and Insurance Management to obtain coverage for general liability, property damage, business interruption, errors and omissions, and natural disasters. Coverage is offered in exchange for an annual premium. There were no changes in coverage or claims in excess of coverage for the year ended June 30, 2011.

13 – EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued Statement No.62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' ("AICPA") Committee on Accounting Procedure issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)**13 – EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

This Statement also supersedes GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, thereby eliminating the election provided in paragraph 7 of the Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict or contradict GASB pronouncements, including this Statement.

The requirements of this Statement are effective for the financial statements for periods beginning after December 15, 2011. The Authority's management believes the implementation of this Statement will not have a significant impact on its financial statements.

14 – SEGMENT INFORMATION

The presentation of segment information for the Authority, which follows, and conforms with the requirements of GASB Statement No. 37, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus."

Loan Program I includes Series 2002 A and 2003 A Water Development Revenue Refunding Bonds. Loan Program II includes Series 2003 A Water Development Revenue Bonds and Series 2003 B, 2003 C, 2003 D, 2005 A, 2005 B and 2006 A Water Development Revenue Refunding Bonds. Loan Program III includes Series 2000 A and 2000 B Water Development Revenue Bonds. Loan Program IV includes Series 2005 A and 2005 B Water Development Revenue Bonds.

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2011

14 - SEGMENT INFORMATION (Continued)

<u>ASSETS</u>	<u>Loan Program I</u>	<u>Loan Program II</u>	<u>Loan Program III</u>
Current - unrestricted	\$ 1,453,988	\$ 4,813,058	\$ 466,229
Noncurrent - unrestricted	-	-	-
Restricted - current and noncurrent	26,717,474	134,479,730	28,428,078
Capital	-	-	-
Total assets	<u>28,171,462</u>	<u>139,292,788</u>	<u>28,894,307</u>
<u>LIABILITIES</u>			
Current	1,262,202	4,895,000	1,109,046
Long-term	19,535,702	121,848,952	25,036,987
Total liabilities	<u>20,797,904</u>	<u>126,743,952</u>	<u>26,146,033</u>
<u>NET ASSETS</u>			
Restricted	7,181,772	12,630,778	3,391,091
Unrestricted	191,786	(81,942)	(642,817)
Invested in capital assets	-	-	-
Total net assets	<u>\$ 7,373,558</u>	<u>\$ 12,548,836</u>	<u>\$ 2,748,274</u>
<u>OPERATING REVENUE</u>			
Charges for services and miscellaneous revenue	\$ 1,949,374	\$ 8,582,375	\$ 1,699,843
<u>OPERATING EXPENSES</u>			
Depreciation	-	-	-
Amortization	27,567	94,619	69,364
General and administrative	-	-	-
Allocation of general and administrative	227,698	1,204,482	253,520
<u>OPERATING INCOME</u>	1,694,109	7,283,274	1,376,959
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Interest and investment revenue, net of arbitrage	15,925	228,190	37
Interest expense	(1,434,055)	(6,900,072)	(1,597,638)
Transfers (net)	310,930	1,580,953	253,520
Change in net assets	586,909	2,192,345	32,878
Beginning net assets	<u>6,786,649</u>	<u>10,356,491</u>	<u>2,715,396</u>
Ending net assets	<u>\$ 7,373,558</u>	<u>\$ 12,548,836</u>	<u>\$ 2,748,274</u>
Net cash provided by (used in):			
Operating activities	\$ 2,975,318	\$ 11,896,653	\$ 1,979,966
Capital and related financing activities	-	-	-
Noncapital financing activities	(2,491,771)	(10,725,766)	(2,446,245)
Investing activities	380	104,500	420
Beginning cash and cash equivalents	<u>4,254,960</u>	<u>9,672,897</u>	<u>4,178,845</u>
Ending cash and cash equivalents	<u>\$ 4,738,887</u>	<u>\$ 10,948,284</u>	<u>\$ 3,712,986</u>

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2011

14 - SEGMENT INFORMATION (Continued)

<u>ASSETS</u>	Loan Program IV	Supplemental	Total
Current - unrestricted	\$ 1,286,104	\$ 13,839,826	\$ 21,859,205
Noncurrent - unrestricted	-	14,316,862	14,316,862
Restricted - current and noncurrent	46,507,589	8,236,089	244,368,960
Capital assets - net	-	2,585,614	2,585,614
Total assets	<u>47,793,693</u>	<u>38,978,391</u>	<u>283,130,641</u>
 <u>LIABILITIES</u>			
Current	1,125,195	237,969	8,629,412
Long-term	46,041,859	1,031,872	213,495,372
Total liabilities	<u>47,167,054</u>	<u>1,269,841</u>	<u>222,124,784</u>
 <u>NET ASSETS</u>			
Restricted	465,730	7,204,217	30,873,588
Unrestricted	160,909	27,918,719	27,546,655
Invested in capital assets	-	2,585,614	2,585,614
Total net assets	<u>\$ 626,639</u>	<u>\$ 37,708,550</u>	<u>\$ 61,005,857</u>
 <u>OPERATING REVENUE</u>			
Charges for services and miscellaneous revenue	\$ 2,414,284	\$ 627,861	\$ 15,273,737
 <u>OPERATING EXPENSES</u>			
Depreciation	-	31,700	31,700
Amortization	(5,864)	(2)	185,684
General and administrative	-	2,282,889	2,282,889
Allocation of general and administrative	452,278	(2,137,978)	-
<u>OPERATING INCOME</u>	1,967,870	451,252	12,773,464
 <u>NONOPERATING REVENUES (EXPENSES):</u>			
Interest and investment revenue, net of arbitrage	27	190,519	434,698
Interest expense	(2,221,085)	-	(12,152,850)
Transfers (net)	432,923	(2,578,326)	-
Change in net assets	179,735	(1,936,555)	1,055,312
Beginning net assets	<u>446,904</u>	<u>39,645,105</u>	<u>59,950,545</u>
Ending net assets	<u>\$ 626,639</u>	<u>\$ 37,708,550</u>	<u>\$ 61,005,857</u>
 Net cash provided by (used in):			
Operating activities	\$ 3,051,434	\$ (711,012)	\$ 19,192,359
Capital and related financing activities	-	(1,613,123)	(1,613,123)
Noncapital financing activities	(3,112,538)	-	(18,776,320)
Investing activities	27	183,533	288,860
Beginning cash and cash equivalents	<u>27</u>	<u>12,537,574</u>	<u>30,644,303</u>
Ending cash and cash equivalents	<u>\$ (61,050)</u>	<u>\$ 10,396,972</u>	<u>\$ 29,736,079</u>

**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 the financial statements of the West Virginia Water Development Authority (the Authority) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 13, 2011. 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.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

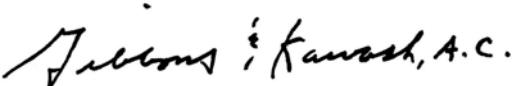
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2011-1 to be a material weakness.

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

We noted certain other matters that we reported to the management of the Authority in a separate letter dated October 13, 2011.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Authority's board, audit committee, and management, and the State of West Virginia and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Jillons & Kanash, A.C." The signature is written in a cursive, flowing style.

October 13, 2011

WEST VIRGINIA WATER DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES

2011-1 SUPERVISION, REVIEW AND APPROVAL OVER FINANCIAL REPORTINGCriteria

Internal control over financial reporting is a process designed by, or under the supervision of, the Authority's management, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other reports for external purposes in accordance with generally accepted accounting principles. It also includes the effectiveness of levels of supervisory review and approval.

Condition

The Authority's transactions are predominately processed and reported by third parties and entered to the general ledger by journal entry. We noted that the financial reporting specialists create and post journal entries to the general ledger without supervisory review or approval and the financial reporting process is not subject to supervisory review and approval.

Effect

The Authority is susceptible to the risk that errors or fraud could occur and not be detected in a timely manner, causing the financial statements and related information to be misleading. Additionally, the Authority's management could make decisions based on inaccurate or untimely information.

Cause

The Authority has not updated policies and procedures, or filled critical supervisory positions sufficient to consistently perform these important control activities.

Recommendation

We recommend that the Authority hire qualified personnel and update policies and procedures regarding effective and efficient supervisory review and approval over the complete financial reporting process.

Views of Responsible Officials

Our financial system has been fully automated and will be utilized beginning with the Fiscal Year 2012. We now have three (3) accountants on staff and have two (2) supervisory positions that remain unfilled. They are a Chief Financial Officer and a Controller position. We have gone through an extensive interview and selection process, and the Chief Financial Officer position is pending final approval. We are hopeful to make an offer in the very near future. Once the Chief Financial Officer is on board, we will advertise for the Controller position and hope to have the position filled during the 1st quarter of 2012. Once the two supervisory positions are filled, the issues of internal control and establishment of formal policies will be addressed. Formal policies and proper controls will be in place prior to our next audit.