

Audited Financial Statements

West Virginia Economic Development Authority

Years Ended June 30, 2016 and 2015

Audited Financial Statements  
WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY  
Years Ended June 30, 2016 and 2015

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying combined financial statements of the West Virginia Economic Development Authority (the Authority), a component unit of the State of West Virginia, as of and for the years ended June 30, 2016 and 2015, 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



## Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the West Virginia Economic Development Authority as of June 30, 2016 and 2015, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the schedule of the proportionate share of the net pension liability and the schedule of contributions to the PERS on pages 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2016, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Charleston, West Virginia  
October 11, 2016

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

This section will discuss the financial performance of the West Virginia Economic Development Authority (WVEDA) and its blended combined entities, West Virginia Enterprise Advancement Corporation (WVEAC) and West Virginia Enterprise Capital Fund (WVECF); collectively referred to as "the Authority." The annual combined financial report presents our discussion and analysis of the Authority for fiscal years ended on June 30, 2016, 2015, and 2014. Please read it in conjunction with the Authority's combined financial statements and accompanying notes.

**FINANCIAL HIGHLIGHTS**

- The Authority's total net position increased approximately \$5.53 million for the year ended June 30, 2016 and \$6.18 million for the year ended June 30, 2015.
- Total assets increased by approximately \$6.09 million for the year ended June 30, 2016 and \$2.09 million for the year ended June 30, 2015.
- Loan and lease originations for the year totaled approximately \$18.79 million for the year ended June 30, 2016 and \$20.77 million for the year ended June 30, 2015.

**OVERVIEW OF THE COMBINED FINANCIAL STATEMENTS**

The annual combined financial statements consist of: Management's Discussion and Analysis (this section), the combined financial statements and notes to financial statements, and other required supplementary information related to pensions.

- The Authority's combined financial statements provide information about the overall financial position and results of operations. These statements, which are presented on the accrual basis, consist of Combined Statements of Net Position, Combined Statements of Revenues, Expenses, and Changes in Fund Net Position, and Combined Statements of Cash Flows.
- The basic combined financial statements also include "Notes to Financial Statements," which provide explanations and additional information related to amounts reported in the combined financial statements.

The remainder of this overview section of management's discussion and analysis explains the structure and content of each of the combined financial statements. The prior year results referred to throughout this section for comparison purposes are as previously reported.

The combined financial statements report information about the Authority's use of accounting methods which are similar to those used by private sector companies. These combined financial statements are presented in a manner similar to a private business, such as real estate development, investment banking, commercial lending, construction management, and private consulting, subject to the provisions of generally accepted accounting principles followed by governments for special purpose governments engaged in business type activities.

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

**FINANCIAL ANALYSIS OF THE AUTHORITY**

Combined Statements of Net Position: The following table summarizes the balances in the Combined Statements of Net Position as of June 30, 2016, 2015, and 2014.

	(in millions)			% Change FY 16-15	% Change FY 15-14
	2016	2015	2014		
Current assets	\$ 81.05	\$ 79.26	\$ 75.11	2.26	5.53
Capital assets, net	31.59	33.25	33.94	(4.99)	(2.03)
Other noncurrent assets	<u>183.84</u>	<u>177.88</u>	<u>179.25</u>	3.35	(0.76)
Total assets	296.48	290.39	288.30	2.10	0.72
Deferred outflows of resources	<u>0.23</u>	<u>0.09</u>	<u>-</u>	155.56	-
Total assets and deferred outflows of resources	<u>\$ 296.71</u>	<u>\$ 290.48</u>	<u>\$ 288.30</u>	2.14	0.76
Current liabilities	\$ 17.10	\$ 17.15	\$ 17.56	(0.29)	(2.33)
Noncurrent liabilities	<u>122.28</u>	<u>121.53</u>	<u>125.28</u>	0.62	(2.99)
Total liabilities	139.38	138.68	142.84	0.50	(2.91)
Deferred inflows of resources	<u>0.16</u>	<u>0.16</u>	<u>-</u>	-	-
Total liabilities and deferred inflows of resources	<u>139.54</u>	<u>138.84</u>	<u>142.84</u>	0.50	(2.80)
Net position:					
Net investment in capital assets	26.95	26.90	25.87	0.19	3.98
Restricted	9.02	8.99	8.98	0.33	0.11
Unrestricted	<u>121.20</u>	<u>115.75</u>	<u>110.61</u>	4.71	4.65
Total net position	<u>157.17</u>	<u>151.64</u>	<u>145.46</u>	3.65	4.25
Total liabilities, deferred inflows of resources, and net position	<u>\$ 296.71</u>	<u>\$ 290.48</u>	<u>\$ 288.30</u>	2.14	0.76

The Authority's overall net position increased by approximately \$5.53 million and \$6.18 million for the years ended June 30, 2016 and 2015, respectively. Total assets increased by approximately \$6.09 million and \$2.09 million for the years ended June 30, 2016 and 2015, respectively, as a direct result of lending activities during the years then ended.

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

Combined Statements of Revenues, Expenses, and Changes in Fund Net Position: The following table summarizes the balances in the Combined Statements of Revenues, Expenses, and Changes in Fund Net Position for fiscal years 2016, 2015, and 2014.

	(in millions)			% Change FY 16-15	% Change FY 15-14
	2016	2015	2014		
Operating revenues:					
Interest on loans	\$ 3.28	\$ 4.85	\$ 4.32	(32.37)	12.27
Lease revenues	4.51	4.52	5.11	(0.22)	(11.55)
Other revenues	<u>0.56</u>	<u>1.59</u>	<u>1.38</u>	(64.78)	15.22
Total operating revenues	<u>8.35</u>	<u>10.96</u>	<u>10.81</u>	(23.81)	1.39
Operating expenses:					
Administrative	1.41	1.18	1.22	19.49	(3.28)
Depreciation	0.58	0.57	0.57	1.75	-
Provision for loan losses	0.17	1.72	1.07	(90.12)	60.75
Loss in equity investments	0.79	0.83	1.14	(4.82)	(27.19)
Other expenses	<u>-</u>	<u>-</u>	<u>0.01</u>		(100.00)
Total operating expenses	<u>2.95</u>	<u>4.30</u>	<u>4.01</u>	(31.40)	7.23
Operating income	<u>5.40</u>	<u>6.66</u>	<u>6.80</u>	(18.92)	(2.06)
Nonoperating revenues (expenses):					
Interest on invested cash	0.53	0.22	0.27	140.91	(18.52)
Interest expense	<u>(0.40)</u>	<u>(0.41)</u>	<u>(0.42)</u>	(2.44)	(2.38)
Total nonoperating revenues (expenses)	<u>0.13</u>	<u>(0.19)</u>	<u>(0.15)</u>	(168.42)	26.67
Change in net position	5.53	6.47	6.65	(14.53)	(2.71)
Net position, beginning of year	<u>151.64</u>	<u>145.17</u> *	<u>138.81</u>	4.46	4.58
Net position, end of year	<u>\$ 157.17</u>	<u>\$ 151.64</u>	<u>\$ 145.46</u>	3.65	4.25

\*Restated by (.29) for implementation of GASB No. 68

Within the Authority's activities, the primary revenue sources are interest income on active loans and lease revenue. Nonoperating revenue includes interest income on invested cash. Total revenues exceeded total expenses by \$5.53 million and \$6.47 million for the years ending June 30, 2016, and 2015, respectively.

During 2016, the Authority did not write-off any loan as uncollectible. The allowance for loan loss was increased by \$400,000 to \$6.6 million. The allowance for loan loss is 5.10% of the total loan portfolio at June 30, 2016.

During 2015, the Authority had write-offs of uncollectible loans of \$1.34 million, or 1.07% of the total loans. The allowance for loan loss is 4.96% of the total loan portfolio at June 30, 2015.

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

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets - The Authority independently, or in cooperation with private and/or other governmental entities, acquires, invests in, and/or develops vacant industrial sites, existing facilities, unimproved land, equipment, and other real estate for private or governmental use. Sites developed and equipment purchased for private use are marketed or leased to businesses that will create new job opportunities and tax ratables for the municipalities. Sites developed for governmental use are leased to the State or State entities. For the majority of these leases, future minimum lease rental payments are equal to the debt service payments related to the bonds or notes issued for the applicable property.

Debt - Total notes payable increased by approximately \$830,000, which was directly related to an increase in net borrowing on our revolving loan agreement with the West Virginia Board of Treasury Investments to finance loans and leases for economic development purposes.

Additional information regarding capital assets and capital debt can be found in the notes to financial statements.

**CURRENTLY KNOWN FACTS AND CONDITIONS HAVING A SIGNIFICANT EFFECT ON FINANCIAL POSITION**

There are currently no known facts and conditions recognized by management that would have a significant effect on the financial position of the Authority.

**REQUESTS FOR INFORMATION**

The combined financial report is designed to provide an overview of the finances of the Authority for those with an interest in this organization. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the West Virginia Economic Development Authority at Northgate Business Park, 180 Association Drive, Charleston, West Virginia 25311.



## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

## COMBINED STATEMENTS OF NET POSITION

June 30, 2016 and 2015

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 70,967,385	\$ 67,601,006
Restricted cash due to others	1,688,780	1,688,780
Current portion of loans receivable, net of allowance	2,125,724	5,161,873
Current portion of investment in direct financing leases	4,675,103	3,607,224
Accrued interest receivable	1,591,043	1,196,533
Total current assets	<u>81,048,035</u>	<u>79,255,416</u>
Noncurrent assets:		
Investments	3,198,941	3,862,602
Restricted cash and cash equivalents	9,019,771	8,990,601
Loans receivable, less current portion	120,743,528	113,662,283
Investment in direct financing leases, less current portion	50,881,390	51,364,285
Real estate, property, and equipment, less accumulated depreciation	31,371,636	33,033,250
Land held for sale	221,000	221,000
	<u>215,436,266</u>	<u>211,134,021</u>
Total assets	<u>296,484,301</u>	<u>290,389,437</u>
Deferred outflows of resources related to pension amounts	<u>225,704</u>	<u>93,574</u>
Total assets and deferred outflows of resources	<u>\$ 296,710,005</u>	<u>\$ 290,483,011</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 24,982	\$ 20,640
Accrued interest payable	2,681,508	2,693,047
Amounts due to other State agencies	1,517,018	1,450,351
Current portion of compensated absences	33,006	31,471
Current portion of loans payable	12,839,255	12,957,928
Total current liabilities	<u>17,095,769</u>	<u>17,153,437</u>
Noncurrent liabilities:		
Unearned lease revenue	722,888	1,012,043
Other noncurrent liabilities	281,780	281,780
Compensated absences, less current portion	40,829	35,869
Loans payable, less current portion	120,988,694	120,039,905
Net pension liability	248,574	157,492
	<u>122,282,765</u>	<u>121,527,089</u>
Total liabilities	<u>139,378,534</u>	<u>138,680,526</u>
Deferred inflows of resources related to pension amounts	<u>160,246</u>	<u>166,605</u>
Net position:		
Net investment in capital assets	26,953,419	26,900,916
Restricted	9,019,771	8,990,601
Unrestricted	121,198,035	115,744,363
Total net position	<u>157,171,225</u>	<u>151,635,880</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 296,710,005</u>	<u>\$ 290,483,011</u>

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

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

## COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Interest on loans	\$ 3,277,579	\$ 4,849,396
Lease revenue	4,512,147	4,517,349
Other	<u>562,117</u>	<u>1,594,670</u>
Total operating revenues	<u>8,351,843</u>	<u>10,961,415</u>
Operating expenses:		
Administrative	1,413,705	1,177,720
Depreciation	575,005	576,321
Provision for loan losses	173,332	1,715,278
Loss on equity investments	794,477	822,242
Other expense	<u>428</u>	<u>3,787</u>
Total operating expenses	<u>2,956,947</u>	<u>4,295,348</u>
Operating income	5,394,896	6,666,067
Nonoperating revenue (expense):		
Interest on invested cash	525,318	222,134
Interest expense	<u>(384,869)</u>	<u>(412,689)</u>
Total nonoperating revenue (expense)	<u>140,449</u>	<u>(190,555)</u>
Change in net position	5,535,345	6,475,512
Net position, beginning of year	<u>151,635,880</u>	<u>145,160,368</u>
Net position, end of year	<u>\$ 157,171,225</u>	<u>\$ 151,635,880</u>

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

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

## COMBINED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Cash receipts from lending and leasing activities	\$ 21,097,326	\$ 28,401,809
Cash receipts from other activities	414,586	3,033,489
Cash payments for:		
Loans and leases originated	(18,794,677)	(20,770,144)
Administrative expenses	(1,378,860)	(1,241,535)
Other expense	-	(4,507)
Net cash provided by operating activities	<u>1,338,375</u>	<u>9,419,112</u>
Cash flows from non-capital financing activities		
Proceeds from loans payable	14,516,407	12,680,780
Principal payments on loans payable	(13,686,291)	(16,588,062)
Interest paid	(384,869)	(412,689)
Net cash provided by (used in) non-capital financing activities	<u>445,247</u>	<u>(4,319,971)</u>
Cash flows from capital and related financing activities		
Acquisition of real estate and equipment	(13,391)	(113,115)
Sale of land	1,100,000	-
Net cash provided by (used in) capital and related financing activities	<u>1,086,609</u>	<u>(113,115)</u>
Cash flows from investing activities		
Distributions received from equity investees	525,318	222,134
Net increase in cash and cash equivalents	3,395,549	5,208,160
Cash and cash equivalents (including restricted cash), beginning of year	<u>78,280,387</u>	<u>73,072,227</u>
Cash and cash equivalents (including restricted cash), end of year	<u>\$ 81,675,936</u>	<u>\$ 78,280,387</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 5,394,896	\$ 6,666,067
Adjustments to reconcile operating income to net cash provided by operating activities:		
Loans and leases originated	(18,794,677)	(20,770,144)
Principal collected on loans	9,961,203	13,757,054
Collections on net investment in direct financing leases	3,803,394	3,274,291
Depreciation	575,005	576,321
Provision for loan and lease losses	173,332	1,715,278
Recoveries	226,668	26,270
Pension expense	34,845	20,699
Loss (gain) on valuation of real estate	-	222,275
Loss on equity investees	663,661	822,159
Changes in operating accounts:		
(Increase) decrease in accrued interest receivable	(394,510)	3,608,152
Increase in deferred outflows of resources	(82,252)	(84,516)
Increase in accounts payable	4,342	2,500
Increase in amounts due to other State agencies	66,667	-
Decrease in accrued expenses	(5,044)	(128,139)
Decrease in unearned lease revenue	(289,155)	(289,155)
Net cash provided by operating activities	<u>\$ 1,338,375</u>	<u>\$ 9,419,112</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 384,869</u>	<u>\$ 412,689</u>

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

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

**1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Description of Entities*West Virginia Economic Development Authority (WVEDA)*

The West Virginia Economic Development Authority (WVEDA) is a public corporation and government instrumentality under Chapter 31, Article 15, of the West Virginia Code (the Code). The WVEDA is administered by a nine member Board of Directors comprised of the Governor, Tax Commissioner, and seven at-large members appointed by the Governor. The WVEDA has statutory authority to borrow funds from the West Virginia Board of Treasury Investments to loan to borrowers.

Under the Code, the WVEDA is charged with the responsibility to develop and advance the business prosperity and economic welfare of the State of West Virginia by providing financial assistance in the form of loans and direct financing and operating leases to industrial development agencies and enterprises for the promotion and retention of new and existing commercial and industrial development. The WVEDA is empowered to borrow money and issue bonds, notes, commercial paper, and other debt instruments and to furnish money, credit, or credit enhancement for the promotion of business development projects. Credit enhancement is available through the WVEDA's loan guarantee programs, which were created to ensure payment or repayment of bonds and notes issued by the WVEDA and certain other public bodies, or other types of debt instruments entered into by an enterprise or state public body with a financial institution.

The WVEDA's loans are secured by deeds of trust on property, security interests in equipment, promissory notes, and, in certain cases, have supplemental collateral comprised of letters of credit, lease assignments, and/or personal guarantees. The WVEDA's loan terms are set by its Board of Directors (the Board) whose members periodically review market conditions. The amount the WVEDA may lend for projects varies depending upon the nature of the project and form of lending, as prescribed by the Board.

In evaluating how to define the WVEDA for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity is made by applying the criteria set forth in accounting principles generally accepted in the United States of America (GAAP) for governments. GAAP defines component units as those entities which are legally separate organizations for which the members of the board are financially accountable, or the organizations for which the nature and significance of their relationship with the WVEDA are such that exclusion would cause the WVEDA's statements to be misleading. In accordance with GAAP, the WVEDA's statements are prepared on a blended, or combined, basis and include the activities of the WVEDA, the West Virginia Certified Development Corporation (which discontinued operations during the year ended June 30, 2015), the West Virginia Enterprise Advancement Corporation, and the West Virginia Enterprise Capital Fund.

*West Virginia Certified Development Corporation (WVDCDC)*

The WVDCDC was a nonprofit, nonstock corporation established to help communities in the State of West Virginia stimulate the growth and expansion of small business under the provisions of Sections 503 and 504, Title V of the Small Business Investment Act of 1958, as amended (the Act). The WVDCDC was exempt from federal income tax on its exempt purpose activities as an organization described in Section 501(c)(3) of the Internal Revenue Code. There was no material impact to the financial statements as a result of the discontinuance of operations on November 20, 2014.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Description of Entities (Continued)*West Virginia Enterprise Advancement Corporation (WVEAC)*

The WVEAC is a nonprofit organization created to advance the economic development and social welfare of the State of West Virginia and its people. Its objectives include the promotion and assistance of business growth and development to foster increased employment opportunities throughout the State of West Virginia through the promotion and development of accessible risk capital. To further these objectives, WVEAC has invested in and is the 100% owner of the West Virginia Enterprise Capital Fund. The WVEAC is exempt from federal income tax on its exempt purpose activities as an organization described in Section 501(c)(3) of the Internal Revenue Code.

*West Virginia Enterprise Capital Fund, LLC (WVECF)*

The WVECF was incorporated on September 24, 2001. The WVECF is in the business of making venture capital available to companies doing business in the State of West Virginia through investments in venture capital companies as provided under the West Virginia Venture Capital Act. The WVECF is managed by its sole member, the WVEAC.

The WVECF operates as a Limited Liability Company as permitted under West Virginia State Code. As such, the WVECF's net income or loss is allocated to its sole member, a nonprofit organization, in accordance with the regulations of the Internal Revenue Service. Accordingly, no income tax provision has been included in these financial statements.

The WVEDA, WVCDC, WVEAC, and the WVECF are collectively referred to as the "Authority" in these financial statements.

Basis of Presentation

The Authority is a component unit of the State of West Virginia, and is accounted for as a proprietary fund special purpose government engaged in business-type activities. In accordance with GAAP, the combined financial statements are prepared on the accrual basis of accounting with a flow of economic resources measurement focus, which requires recognition of revenue when earned and expenses when incurred.

The Authority is included in the State's financial statements as a discretely presented component unit. Because of the Authority's presentation in these financial statements as a special purpose government engaged in business-type activities, there may be differences in presentation of amounts reported in these financial statements and the financial statements of the State of West Virginia as a result of major fund determination.

Use of Estimates

Certain estimates and assumptions are required by management in the preparation of the financial statements in accordance with generally accepted accounting principles (GAAP). The significant estimates and assumptions that affect the reporting of amounts of assets and liabilities at the statement of net position dates and revenues and expenses for the years then ended are those required in the determination of the allowance for loan losses, accumulated depreciation, and the valuation of investments in venture capital companies. Actual results in the near-term could differ from the estimates used to prepare these financial statements.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of amounts on deposit with the State Treasurer's Office (STO) and those that are pooled funds managed by the West Virginia Board of Treasury Investments (BTI). Balances maintained in the West Virginia Money Market and West Virginia Government Money Market pools are recorded at amortized cost. Balances maintained in the West Virginia Short Term Bond Pool are recorded at fair value. Net investment income is allocated to participants in the pools based upon the funds that have been invested in each pool. The amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

Investments*Venture Capital Investments*

The WVECF invests in venture capital entities which are managed by various fund managers. The investments involve risks not normally associated with investing, including equity interests in development stage companies. The risks associated with these investments are affected by many factors, such as economic outlook, ability to raise capital, and ability to attract customers. Collateral values securing venture capital investments are not readily determinable.

Venture capital investments are not readily marketable, and, therefore, no quoted prices are available. The Fund manager has estimated the value of these investments after consideration of such factors as the cost of the investment, actual performance compared to expected performance, earnings potential, and other relevant factors. Because of uncertainties in the estimation process, estimated values may change in the near term, and those changes may be material.

*Other Investments*

Other investments include certain amounts held by the BTI for the Authority in a participant directed investment account which maintains a single U.S. Treasury Bond which matures August 15, 2023 and is recorded at fair value.

Loans

The Authority extends commercial loans to customers. A substantial portion of the loan portfolio is represented by commercial loans throughout West Virginia. The ability of the Authority's debtors to honor their contracts is dependent upon the operating results of the customers and the value of real and personal property held as collateral.

Loans are stated at unpaid principal balances, net of the allowance for loan losses.

Interest on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Allowance for Loan and Credit Losses

The allowance for loan and credit losses consists of an allowance for loan losses on outstanding loans and certain credit financial instruments of the Authority.

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the statement of net position date. The Authority uses a process to establish the allowance for loan losses semi-annually. To determine the total allowance for loan losses, management estimates the reserves needed for each loan. The allowance for loan losses consists of amounts applicable to (1) commercial - real estate portfolio, (2) commercial - equipment, and (3) commercial-both real estate and equipment.

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of management review and significant judgment in determining the estimation method that fits the credit risk characteristics of each portfolio segment, including responses to changes in economic conditions, customer behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts or to release balances from the allowance for loan losses. The Authority's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions. Individual loan risk ratings are evaluated based on each specific situation by experienced staff.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by staff of loan portfolio performance. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

Real Estate and Equipment Held Under Lease

Real estate and equipment held under lease are carried at cost or, if contributed, at the market value of the property as of the date contributed. Depreciation on equipment and buildings is computed using the straight-line method with estimated useful lives of 5 to 40 years.

Compensated Absences

Employees fully vest in all earned but unused annual leave, and the Authority accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. The estimated obligation for such benefits, as they relate to employees of the Authority, are recorded as a liability in the accompanying combined financial statements.

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 certain pension related amounts as deferred outflows of resources on the statements of net position.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Deferred Outflows of Resources / Deferred Inflows of Resources (Continued)

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 certain pension related amounts as deferred inflows of resources on the statements of net position.

Unearned Lease Revenue

The Authority reports lease payments received in advance as unearned lease revenue and recognizes lease revenue over the remaining term of the lease.

Net Position

The Authority displays net position in three components: net investment in capital assets, restricted, and unrestricted.

*Net investment in Capital Assets* - This component of net position consists primarily of capital assets, including restricted capital assets (if any), net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted Net Position* - Restricted net position consists of assets whose use or availability has been externally restricted, and the restrictions limit the Authority's ability to use the resources to pay current liabilities. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as needed.

*Unrestricted Net Position* - Unrestricted net position consists of net position that do not meet the definition of "restricted" or "investment in capital assets, net of related debt." In the governmental environment, net position is often designated to indicate that management does not consider it to be available for general operations. These types of constraints on resources are internal, and management can remove or modify them. Such internal designations are not reported on the face of the statement of net position.

Operating Revenues and Expenses

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

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses include activities that do not have the characteristics of operating revenues and expenses, such as gifts, contributions, investment income, other revenues, and interest expense that are defined as nonoperating by GAAP.



## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Pension

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

Loan Insurance Program

The Authority extends non-exchange financial guarantees under its Loan Insurance Program. This program administered by the Authority, provides up to a 90% guarantee of actual loss from a bank to its borrower. The maximum liability to the Authority may not exceed \$500,000 per transaction. The Authority is required to recognize a liability when qualitative, historical and other factors indicate that it is more likely than not that the Authority will be required to make a payment on the financial guarantee, including the evaluation of whether the participating bank has liquidated all collateral of the borrower, including the pursuit of personal guarantees.

**2 - CASH AND CASH EQUIVALENTS**

At June 30, 2016 and 2015, the carrying amount of deposits with financial institutions, the State Treasurer (STO), and the West Virginia Board of Treasury Investments (BTI) were as follows:

	<u>2016</u>	<u>2015</u>
Deposits:		
WV Money Market Pool at BTI	\$ 45,006,431	\$ 35,299,993
WV Government Money Market Pool at BTI	9,319,771	9,290,601
WV Short Term Bond Pool at BTI	17,140,821	16,894,773
Cash held at State Treasurer's Office	9,842,353	16,348,084
Cash held at outside financial institutions	<u>366,560</u>	<u>446,936</u>
	<u>\$ 81,675,936</u>	<u>\$ 78,280,387</u>

The State Treasurer has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards and commissions and transfers funds to the BTI for investment in accordance with West Virginia statutes, policies set by the BTI and by provisions of bond indentures and trust agreements when applicable and thus the Authority follows these investment policies.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**2 - CASH AND CASH EQUIVALENTS (Continued)**

In accordance with West Virginia Code §31-15-23, the economic development fund, to which shall be credited any appropriation made by the Legislature to the authority, any funds which the authority is authorized to receive under any provision of this code, other funds which the board directs to be deposited into the fund, and such other deposits as are provided for in this section, is hereby continued in the state treasury as a special account. Whenever the Authority determines that the balance in the fund is in excess of the immediate requirements for loans, it may request that such excess be invested until needed for loan purposes, in which case such excess shall be invested in a manner consistent with the investment of other temporary state funds. If the Authority determines that funds held in the fund are in excess of the amount needed to carry out the purposes of this article, it may take such action as is necessary to release such excess and transfer it to the general fund of the treasury.

Credit Risk

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

The BIT limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated A+ by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P-1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America.

At June 30, 2016 and 2015, the WV Money Market Pool investments had a total carrying value of \$1,555,529,000 and \$1,890,464,000, respectively, of which the Authority's ownership represents 2.89% and 1.87%, respectively. The following table provides information on the credit ratings of the WV Money Market pool's investments (in thousands):

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**2 - CASH AND CASH EQUIVALENTS (Continued)**Credit Risk (Continued)

Security Type	Credit Rating		2016		2015	
	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Commercial paper	P-1	A-1+	\$ 290,118	18.65 %	\$ 186,737	9.88 %
	P-1	A-1	632,773	40.68	660,027	34.91
Corporate bonds and notes	Aa1	AA-	23,014	1.48	10,005	0.53
	Aa3	AA-	15,000	0.96	10,000	0.53
	A2	A	11,268	0.72	10,000	0.53
U.S. agency bonds	Aaa	AA+	9,499	0.61	81,994	4.34
U.S. Treasury notes *	Aaa	AA+	231,398	14.88	229,760	12.15
U.S. Treasury bills *	P-1	A-1+	19,982	1.28	92,059	4.87
Negotiable certificates of deposit	Aa2	AA-	3,000	0.19	10,000	0.53
	Aa3	AA-	6,000	0.39	-	0.00
	P-1	A-1+	78,006	5.02	51,000	2.70
	P-1	A-1	121,001	7.78	142,000	7.51
U.S. agency discount notes	-	-	-	0.00	304,342	16.10
Money market funds	Aaa	AAAm	72,370	4.65	90,017	4.76
Repurchase agreements (underlying securities):						
U.S. Treasury notes *	Aaa	AA+	42,100	2.71	1,323	0.07
U.S. agency notes	-	-	-	0.00	11,200	0.59
			<u>\$ 1,555,529</u>	<u>100.00 %</u>	<u>\$ 1,890,464</u>	<u>100.00 %</u>

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

The BTI limits the exposure to credit risk in the WV Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**2 - CASH AND CASH EQUIVALENTS (Continued)**Credit Risk (Continued)

At June 30, 2016 and 2015, the WV Government Money Market Pool investments had a total carrying value of \$190,078,000 and \$248,468,000, respectively, of which the Authority's ownership represents 4.90% and 3.74%, respectively. The following table provides information on the credit ratings of the WV Government Money Market pool investments (in thousands):

Security Type	Credit Rating		2016		2015	
	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
U.S. agency bonds	-	-	\$ -	0.00 %	\$ 6,000	2.41 %
U.S. Treasury notes *	Aaa	AA+	60,445	31.80	34,019	13.69
U.S. Treasury bills*	P-1	A-1+	6,999	3.68	11,991	4.83
U.S. agency discount notes	P-1	A-1+	78,200	41.14	152,299	61.30
Money market funds	Aaa	AAAm	34	0.02	59	0.02
Repurchase agreements (underlying securities):						
U.S. Treasury notes	Aaa	AA+	44,400	23.36	44,100	17.75
			<u>\$ 190,078</u>	<u>100.00 %</u>	<u>\$ 248,468</u>	<u>100.00 %</u>

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

The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated BBB- or higher by Standard & Poor's (or its equivalent). Commercial paper must be rated at least A-1 by Standard & Poor's and P-1 by Moody's. Mortgage-backed and asset-backed securities must be rated AAA by Standard & Poor's and Aaa by Moody's. The pool must have at least 15% of its assets in U.S. Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America.

At June 30, 2016 and 2015, the WV Short Term Bond Pool investments had a total carrying value of \$790,750,000 and \$761,526,000, respectively, of which the Authority's ownership represents 2.17% and 2.22%, respectively. The following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**2 - CASH AND CASH EQUIVALENTS (Continued)**Credit Risk (Continued)

Security Type	Credit Rating		2016		2015	
	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset-backed securities	Aaa	AAA	\$ 75,096	9.50 %	\$ 106,301	13.96 %
	Aaa	NR	80,990	10.24	3,822	0.50
	NR	AAA	71,821	9.08	105,366	13.84
	-	-	-	0.00	80,008	10.51
Corporate bonds and notes	Aaa	AA+	4,088	0.52	7,689	1.01
	Aa1	AA+	4,993	0.63	5,013	0.66
	Aa2	AA+	4,105	0.52	4,039	0.53
	Aa2	AA	7,027	0.89	4,041	0.53
	Aa2	AA-	20,050	2.54	6,987	0.92
	Aa2	AA-	-	0.00	15,025	1.97
	Aa3	AA-	11,019	1.39	1,496	0.20
	Aa2	A	4,069	0.51	1,001	0.13
	Aa3	A+	10,010	1.27	16,380	2.15
	Aa3	A	1,495	0.19	15,787	2.07
	A1	AA	16,564	2.10	7,097	0.93
	A1	A+	11,714	1.48	21,552	2.83
	A1	A	8,214	1.04	24,116	3.17
	A2	A+	625	0.08	8,078	1.06
	A2	A	28,703	3.63	-	0.00
	A2	A-	18,082	2.29	4,617	0.61
	A3	AA-	1,510	0.19	45,485	5.97
	A3	A	3,729	0.47	9,485	1.25
	A3	A-	41,669	5.27	43,564	5.72
	A3	BBB+	29,407	3.72	20,699	2.72
	Baa1	A	1,942	0.25	9,745	1.28
	Baa1	A-	11,241	1.42	-	0.00
	Baa1	BBB+	54,401	6.88	2,001	0.26
	Baa1	BBB	12,671	1.60	27,754	3.64
	Baa1	NR	2,048	0.26	33,751	4.43
	Baa2	A-	4,391	0.56	12,788	1.68
	Baa2	BBB+	5,942	0.75	500	0.07
	Baa2	BBB	19,286	2.44	-	0.00
	Baa2	BBB-	6,152	0.78	3,205	0.42
	Baa3	BBB+	3,031	0.38	19,066	2.50
	Baa3	BBB	13,240	1.67	3,008	0.40
	Baa3	BBB-	15,979	2.02	2,125	0.28
	Ba1	BBB	2,339	0.30	6,265	0.82
	Ba1	BBB-	4,843	0.61	17,460	2.29
	NR	BBB-	1,977	0.25	-	0.00
U.S. agency mortgage backed securities*	Aaa	AA+	47,311	5.98	32,198	4.23
Corporate mortgage backed securities	Aaa	AAA	10,687	1.35	-	0.00
	Aaa	NR	18,607	2.35	-	0.00
	NR	AAA	108	0.01	-	0.00
U.S. Treasury notes**	Aaa	AA+	89,497	11.32	-	0.00
Money market funds	Aaa	AAAm	10,077	1.27	34,012	4.46
			<u>\$ 790,750</u>	<u>100.00 %</u>	<u>\$ 761,526</u>	<u>100.00 %</u>

NR = Not Rated

\*U.S. agency mortgage backed securities are explicitly guaranteed by the United States government and are not subject to credit risk.

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

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**2 - CASH AND CASH EQUIVALENTS (Continued)**Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

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

<u>Security Types</u>	<u>2016</u>		<u>2015</u>	
	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 42,100	1	\$ 12,523	1
U.S. Treasury notes	231,398	88	229,760	75
U.S. Treasury bills	19,982	91	92,059	123
Commercial paper	922,891	48	846,764	30
Certificates of deposit	208,007	40	203,005	51
U.S. agency discount notes	-	-	304,342	60
Corporate bonds and notes	49,282	14	30,000	75
U.S. agency bonds	9,499	24	81,994	58
Money market funds	<u>72,370</u>	<u>1</u>	<u>90,017</u>	<u>1</u>
	<u>\$ 1,555,529</u>	<u>49</u>	<u>\$ 1,890,464</u>	<u>47</u>

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

<u>Security Types</u>	<u>2016</u>		<u>2015</u>	
	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 44,400	1	\$ 44,100	1
U.S. Treasury notes	60,445	89	34,019	80
U.S. Treasury bills	6,999	21	11,991	160
U.S. agency discount notes	78,200	50	152,299	51
U.S. agency bonds	-	-	6,000	30
Money market funds	<u>34</u>	<u>1</u>	<u>59</u>	<u>1</u>
	<u>\$ 190,078</u>	<u>50</u>	<u>\$ 248,468</u>	<u>51</u>

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**2 - CASH AND CASH EQUIVALENTS (Continued)**Interest Rate Risk (Continued)

The overall effective duration of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum effective duration of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool:

Security Types	2016		2015	
	Carrying Value (In Thousands)	Effective Duration (Days)	Carrying Value (In Thousands)	Effective Duration (Days)
Corporate bonds and notes	\$ 386,556	480	\$ 399,822	495
Corporate asset backed securities	227,907	302	295,494	357
U.S. Treasury bonds	89,497	1,034	-	-
U.S. agency mortgage backed securities	47,311	175	32,198	267
Corporate mortgage backed securities	29,402	338	-	1
Money market funds	10,077	1	34,012	1
	<u>\$ 790,750</u>	462	<u>\$ 761,526</u>	410

Other Risks of Investing

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single corporate issuer. The BTI's investment policy prohibits those pools permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name or one corporate issue.

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

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the BTI investment pools holds interests in foreign currency or interests valued in foreign currency.

Cash Held in Outside Financial Institutions

Limited cash and cash equivalents are held outside of the STO and the BTI and consist of demand deposits maintained with high credit quality financial institutions. At times, the balances with the institutions may exceed amounts covered by FDIC insurance limit; however, management believes that the financial institutions are credit worthy.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**3 - INVESTMENTS**

	<u>2016</u>	<u>2015</u>
Investments:		
WVEDA - American Woodmark at BTI	\$ 1,970,514	\$ 1,919,698
Investments in Venture Capital Companies	<u>1,228,427</u>	<u>1,942,904</u>
Total	<u>\$ 3,198,941</u>	<u>\$ 3,862,602</u>

WV Economic Development Authority - American Woodmark

This account holds a U.S. Treasury bond that matures on August 15, 2023. The Authority's Board of Directors approved this investment by resolution dated March 18, 2006. This security is not exposed to credit risk, custodial credit risk, concentration of credit risk, or foreign currency risk.

Investments In Venture Capital Companies

A portion of the Authority's investment portfolio is comprised of various equity investments in venture capital companies. The investments described below involve risks not normally associated with investing, including interests in development stage companies. The risks associated with these investments are dependent on many factors, such as economic outlook, ability to raise capital, and building a customer base. Collateral values securing the venture capital investments are not readily determinable. The Authority has committed and funded amounts in exchange for ownership interests in venture capital companies at June 30 as follows:

<u>2016</u>	<u>Fair Value</u>	<u>Total Funded</u>	<u>Total Unfunded Commitment</u>
Adena Ventures, LP*	\$ -	\$ 4,000,000	\$ -
Anthem Capital, LP*	-	4,000,000	-
Innova (WV High Tech Consortium, LP)	376,720	684,620	65,380
Mountaineer Capital, LP	510,667	3,800,000	200,000
Novitas, LP	341,040	3,950,000	50,000
Toucan Capital Fund II, LP*	-	4,000,000	-
Walker Investment Fund, LP*	-	<u>4,000,000</u>	<u>-</u>
Total	<u>\$ 1,228,427</u>	<u>\$ 24,434,620</u>	<u>\$ 315,380</u>



## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**3 - INVESTMENTS (Continued)**Investments In Venture Capital Companies (Continued)

<u>2015</u>	<u>Fair Value</u>	<u>Total Funded</u>	<u>Total Unfunded Commitment</u>
Adena Ventures, LP*	\$ -	\$ 4,000,000	\$ -
Anthem Capital, LP*	-	4,000,000	-
Innova (WV High Tech Consortium, LP)	369,066	610,1551	139,849
Mountaineer Capital, LP	1,000,367	3,800,000	200,000
Novitas, LP	573,471	3,830,000	170,000
Toucan Capital Fund II, LP*	-	4,000,000	-
Walker Investment Fund, LP*	-	4,000,000	-
Total	<u>\$ 1,942,904</u>	<u>\$ 24,240,151</u>	<u>\$ 509,849</u>

\* These entities are in receivership with the Small Business Authority, and no future activities or funds are anticipated to be received by the Authority. Accordingly, the value of these assets have been written down to zero.

When the Authority's basis in the venture capital investments reaches zero, the Authority ceases reporting losses unless the Authority has guarantees of debt or future funding commitments.

Fund managers of the venture capital companies recommend individual investments based on predetermined selection criteria. These investments vary widely from start-up companies to operating businesses. Individual fund managers determine investment goals for their venture capital companies. To meet the unfunded commitments, the Authority has its investment securities available.

The following is a summary of each venture capital investment:

- Adena Ventures, LP has primarily invested in information technology, life sciences, and software development.
- Anthem Capital, LP has invested in information technology, telecommunications, life sciences, and industrial technology.
- Innova, LP is developing investment strategies and investigating potential investments.
- Mountaineer Capital, LP's investment portfolio consists of technology transfer, information technology, and software development.
- Novitas, LP has investments in healthcare, communications, and information technology.
- Toucan Capital Fund II, LP is invested in biotechnology, information technology, and nanotechnology.
- Walker Investment Fund, LP has a portfolio consisting of information technology, life sciences, and software development.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**3 - INVESTMENTS (Continued)**Investments In Venture Capital Companies (Continued)

The following is a reconciliation of the beginning and ending carrying balances for venture capital company investments using the Authority's assumptions during the years ended June 30, 2016 and 2015.

Balance, July 1, 2014	\$ 2,745,073
Total gains or losses (unrealized/realized)	
Included in earnings	(822,242)
Purchases, issuances, and settlements	<u>20,073</u>
Balance, June 30, 2015	<u>1,942,904</u>
Total gains or losses (unrealized/realized)	
Included in earnings	(794,477)
Purchases, issuances, and settlements	<u>80,000</u>
Balance, June 30, 2016	<u>\$ 1,228,427</u>

**4 - FAIR VALUE**

Fair value is defined 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, an exit price. 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.

The fair value hierarchy established under GAAP 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 - Inputs - other than quoted prices included within Level 1 - that are observable for an asset or liability, either directly or indirectly.

Level 3 - 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 investments as defined by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurements and Application*, of the Authority as of June 30, 2016:

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

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

<u>Security Types</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Treasury Bond	\$ 1,970,514	\$ -	\$ -	\$ 1,970,514
	<u>\$ 1,970,514</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,970,514</u>

**5 - RESTRICTED NET POSITION**

The West Virginia Legislature enacted legislation creating and funding a program to enhance the availability of loans from commercial lending institutions for economic development purposes. Cash balances relating to this program are invested in the BTI's amortized cost investment pools and have been set aside, together with interest earnings thereon, to meet these objectives by serving to guarantee portions of certain loans made for economic development purposes. See Note 12 to the financial statements for further disclosure of the guarantee program. These restricted balances amounted to \$9,019,771 and \$8,990,601 at June 30, 2016 and 2015, respectively.

**6 - LOANS**

Loans by class are summarized as follows:

	<u>2016</u>	<u>2015</u>
Commercial:		
Real estate	\$ 34,983,766	\$ 35,947,507
Real estate and equipment	12,663,142	6,839,919
Equipment	6,804,708	2,574,294
Service:		
Real estate	6,433,722	6,515,740
Real estate and equipment	3,440,829	3,573,081
Industrial:		
Real estate	22,934,373	23,013,024
Real estate and equipment	23,042,777	30,061,656
Equipment	<u>19,165,935</u>	<u>16,498,935</u>
Total loans	129,469,252	125,024,156
Less allowance for loan loss	<u>(6,600,000)</u>	<u>(6,200,000)</u>
Loans receivable net of allowance	122,869,252	118,824,156
Less current portion	<u>(2,125,724)</u>	<u>(5,161,873)</u>
Noncurrent loans receivable	<u>\$ 120,743,528</u>	<u>\$ 113,662,283</u>

The Authority's loans have been extended to customers operating in West Virginia.

Commercial loans may be collateralized by the assets underlying the borrower's business such as equipment, inventory, or real property. Commercial real estate loans are generally secured by the underlying real property. The ultimate collectability of a substantial portion of the Authority's loan portfolio is susceptible to changes in the local market conditions.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**7 - LOAN CREDIT QUALITY**

Management monitors the credit quality of loans on an ongoing basis. Measurement of delinquency and past due status are based on the contractual terms of each loan.

For all loan classes, past due loans are reviewed on a monthly basis to identify loans for nonaccrual status. Generally, when full collection of the principal and interest is jeopardized, the loan is placed on nonaccrual. The accrual of interest income generally is discontinued when a loan becomes 90 days or more past due as to principal or interest. However, regardless of the delinquency status, if a loan is fully secured or in the process of collection and resolution of collection is expected in the near term (generally less than 90 days), then the loan may not be placed on nonaccrual. When interest accruals are discontinued, unpaid interest recognized in income in the current year is reversed, and unpaid interest accrued in prior years is charged to the allowance for loan losses. The Authority's method of income recognition for loans that are classified as nonaccrual is to recognize interest income on a cash basis or to apply the cash receipt to principal when the ultimate collectability of the principal is in doubt. Management may elect to continue the accrual of interest when the estimated net realized value of collateral exceeds the principal balance and accrued interest, and the loan is in the process of collection. Nonaccrual loans will not normally be returned to accrual status unless all past due principal and interest have been paid.

The following table sets forth the Authority's age analysis of its past due loans, segregated by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	90 Days or More and Accruing
As of June 30, 2016:							
Secured by real estate:							
Commercial	\$ -	\$ -	\$ -	\$ -	\$34,983,766	\$34,983,766	\$ -
Service	-	131,940	6,301,782	6,433,722	-	6,433,722	6,301,782
Industrial	-	-	2,027,676	2,027,676	20,906,697	22,934,373	-
Secured by equipment:							
Commercial	-	-	-	-	6,804,708	6,804,708	-
Industrial	-	-	-	-	19,165,935	19,165,935	-
Secured by real estate & equipment:							
Commercial	-	-	501,055	501,055	12,162,087	12,663,142	-
Service	-	-	-	-	3,440,829	3,440,829	-
Industrial	<u>804,315</u>	<u>752,485</u>	<u>1,108,304</u>	<u>2,665,104</u>	<u>20,377,673</u>	<u>23,042,777</u>	<u>1,108,304</u>
Total loans	<u>\$ 804,315</u>	<u>\$ 884,425</u>	<u>\$ 9,938,817</u>	<u>\$11,627,557</u>	<u>\$117,841,695</u>	<u>\$129,469,252</u>	<u>\$ 7,410,086</u>

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	90 Days or More and Accruing
As of June 30, 2015:							
Secured by real estate:							
Commercial	\$ -	\$ -	\$ -	\$ -	\$35,947,507	\$35,947,507	\$ -
Service	160,634	-	-	160,634	6,355,106	6,515,740	-
Industrial	-	-	3,047,364	3,047,364	19,965,660	23,013,024	-
Secured by equipment:							
Commercial	-	-	-	-	2,574,294	2,574,294	-
Industrial	-	-	-	-	16,498,935	16,498,935	-
Secured by real estate & equipment:							
Commercial	-	-	501,055	501,055	6,338,864	6,839,919	-
Service	-	-	-	-	3,573,081	3,573,081	-
Industrial	<u>-</u>	<u>244,029</u>	<u>868,552</u>	<u>1,112,581</u>	<u>28,949,075</u>	<u>30,061,656</u>	<u>16,152</u>
Total loans	<u>\$ 160,634</u>	<u>\$ 244,029</u>	<u>\$ 4,416,971</u>	<u>\$ 4,821,634</u>	<u>\$120,202,522</u>	<u>\$125,024,156</u>	<u>\$ 16,152</u>

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**7 - LOAN CREDIT QUALITY (Continued)**

The Authority generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred, or the loans reach a certain number of days past due. The following table sets forth the Authority's nonaccrual loans, segregated by class of loans (as applicable) as of:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Secured by real estate:		
Industrial	\$ 2,027,676	\$ 3,047,364
Secured by real estate and equipment:		
Commercial	<u>501,055</u>	<u>501,055</u>
Total	<u>\$ 2,528,731</u>	<u>\$ 3,548,419</u>

The Authority assigns credit quality indicators of pass, special mention, substandard, and doubtful to its loans. The loans are internally assigned a grade based on a combination of the known creditworthiness of the borrower and on the loan's delinquency status. The Authority updates these grades on a semi-annual basis.

A loan classified as pass has strong asset quality and liquidity along with a multi-year track record of profitability.

Special mention loans have a potential weakness that deserves management's close attention. If left unmonitored, these potential weaknesses may result in deterioration of the repayment prospects for such loans or the borrower's credit position at some future date. Adverse economic or market conditions may also support a special mention rating. Other nonfinancial reasons for rating a credit exposure as special mention can include known borrower problems, pending litigation, or lending agreement issues.

A substandard loan contains weaknesses that, if left uncorrected, create some degree of doubt as to the likelihood of full collection of principal and interest. These loans require intensive supervision by management. Such loans are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization. Repayment may depend on collateral or other credit risk mitigants.

A loan classified as doubtful exhibits all the weaknesses inherent in one classified as substandard with the additional characteristic that the weaknesses make its collection in full, based on currently existing facts, conditions, and values, highly questionable and improbable. A doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the credit, its classification as loss is deferred at the present time. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain operationally solvent. Specific pending events may include mergers, acquisitions, liquidations, capital injections, the perfection of liens of additional collateral, the valuation of collateral, and refinancing. Loans classified as doubtful are also considered impaired. Generally, credit exposures are charged-off prior to being classified as doubtful.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**7 - LOAN CREDIT QUALITY (Continued)**

The following table sets forth the Authority's credit quality indicators information, segregated by class of loans (there were no loans graded as doubtful):

<u>June 30, 2016</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Sub- Standard</u>	<u>Total</u>
Secured by real estate:				
Commercial	\$ 13,296,549	\$ 21,687,217	\$ -	\$ 34,983,766
Service	-	-	6,433,722	6,433,722
Industrial	11,161,620	9,745,077	2,027,676	22,934,373
Secured by equipment:				
Commercial	6,804,708	-	-	6,804,708
Industrial	15,425,531	2,856,582	883,822	19,165,935
Secured by real estate and equipment:				
Commercial	8,569,810	3,592,277	501,055	12,663,142
Service	3,440,829	-	-	3,440,829
Industrial	<u>12,066,586</u>	<u>9,820,323</u>	<u>1,155,868</u>	<u>23,042,777</u>
<b>Total</b>	<b><u>\$ 70,765,633</u></b>	<b><u>\$ 47,701,476</u></b>	<b><u>\$11,002,143</u></b>	<b><u>\$ 129,469,252</u></b>
<u>June 30, 2015</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Sub- Standard</u>	<u>Total</u>
Secured by real estate:				
Commercial	\$ 14,140,094	\$ 21,807,413	\$ -	\$ 35,947,507
Service	6,355,106	-	160,634	6,515,740
Industrial	12,557,329	8,408,331	2,047,364	23,013,024
Secured by equipment:				
Commercial	2,574,294	-	-	2,574,294
Industrial	13,204,309	2,410,804	883,822	16,498,935
Secured by real estate and equipment:				
Commercial	3,740,357	2,598,507	501,055	6,839,919
Service	3,573,081	-	-	3,573,081
Industrial	<u>19,342,378</u>	<u>10,059,021</u>	<u>660,257</u>	<u>30,061,656</u>
<b>Total</b>	<b><u>\$ 75,486,948</u></b>	<b><u>\$ 45,284,076</u></b>	<b><u>\$ 4,253,132</u></b>	<b><u>\$ 125,024,156</u></b>

Loans are designated as impaired when, in the opinion of management, based on current information and events, the collection of principal and interest in accordance with the loan contract is doubtful. Typically, such loans have exhibited a sustained period of delinquency or there have been significant events (such as bankruptcy, eminent foreclosure, or natural disasters) that impact repayment probability. Impairment is evaluated on an individual loan basis. Consistent with the Authority's existing method of income recognition for loans, interest on impaired loans, except those classified as nonaccrual, is recognized as income using the accrual method. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**7 - LOAN CREDIT QUALITY (Continued)**

The following table sets forth the Authority's impaired loans information, segregated by class of loans (there were no amounts of recognized interest income on these loans):

<u>June 30, 2016</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>
With an allowance recorded		
Secured by real estate:		
Industrial	\$ 2,027,676	\$ 1,000,000
Secured by real estate and equipment:		
Commercial	<u>501,055</u>	<u>200,000</u>
Total secured by real estate	<u>\$ 2,027,676</u>	<u>\$ 1,000,000</u>
Total secured by real estate and equipment	<u>\$ 501,055</u>	<u>\$ 200,000</u>
<u>June 30, 2015</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>
With an allowance recorded		
Secured by real estate:		
Industrial	\$ 3,047,364	\$ 1,300,000
Secured by real estate and equipment:		
Commercial	<u>501,054</u>	<u>200,000</u>
Total secured by real estate	<u>\$ 3,047,364</u>	<u>\$ 1,300,000</u>
Total secured by real estate and equipment	<u>\$ 501,054</u>	<u>\$ 200,000</u>

**8 - ALLOWANCE FOR CREDIT LOSSES**

The allowance for loan losses is management's estimate of the probable credit losses inherent in the loan portfolio. Management's evaluation of the adequacy of the allowance for loan losses and the appropriate provision for credit losses is based upon a semi-annual evaluation of the portfolio. This evaluation is inherently subjective and requires significant estimates, including the amounts and timing of estimated future cash flows and consideration of current economic trends, all of which are susceptible to constant and significant change. Allocations are made for specific loans based upon management's estimate of the borrowers' ability to repay and other factors impacting collectability. In addition, a portion of the allowance accounts is for the inherent imprecision in the allowance for credit losses analysis. During the year ended June 30, 2016, there were no material changes to the accounting policy or methodology related to the allowance for loan losses.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**8 - ALLOWANCE FOR CREDIT LOSSES (Continued)**

Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses. When a loan or a portion of a loan is identified to contain a loss, a charge-off recommendation is directed to management to charge off all or a portion of that loan.

If secured, the charge-off is generally made to reduce the loan balance to a level equal to the liquidation value of the collateral when payment of principal and interest is 120 days delinquent. Any loan, on which a principal or interest payment has not been made within 30 days, is reviewed monthly for appropriate action.

The Authority considers the allowance for loan losses of \$6,600,000 and \$6,200,000 adequate to cover loan losses inherent in the loan portfolio as of June 30, 2016 and 2015, respectively. The following table presents by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans.

<u>June 30, 2016</u>	<u>Commercial</u>	<u>Service</u>	<u>Industrial</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for credit losses:					
Beginning balance	\$ 840,000	\$ 300,000	\$ 3,925,000	\$ 1,135,000	\$ 6,200,000
Charge-offs	-	-	-	-	-
Recoveries	8,394	-	218,274	-	226,668
Provision	<u>171,606</u>	<u>325,000</u>	<u>(73,274)</u>	<u>(250,000)</u>	<u>173,332</u>
Ending balance	<u>\$ 1,020,000</u>	<u>\$ 625,000</u>	<u>\$ 4,070,000</u>	<u>\$ 885,000</u>	<u>\$ 6,600,000</u>
Ending balance: Individually evaluated for impairment	<u>\$ 1,020,000</u>	<u>\$ 625,000</u>	<u>\$ 4,070,000</u>	<u>\$ -</u>	<u>\$ 5,715,000</u>
Ending balance: Collectively evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 885,000</u>	<u>\$ 885,000</u>
Loans receivable:					
Ending balance	<u>\$54,451,616</u>	<u>\$ 9,874,551</u>	<u>\$65,143,085</u>	<u>\$ -</u>	<u>\$129,469,252</u>
Allowance for credit losses:					
Beginning balance	\$ 1,640,000	\$ 141,250	\$ 3,485,000	\$ 533,750	\$ 5,800,000
Charge-offs	(1,200,000)	(141,250)	(298)	-	(1,341,548)
Recoveries	5,194	-	21,076	-	26,270
Provision	<u>394,806</u>	<u>300,000</u>	<u>419,222</u>	<u>601,250</u>	<u>1,715,278</u>
Ending balance	<u>\$ 840,000</u>	<u>\$ 300,000</u>	<u>\$ 3,925,000</u>	<u>\$ 1,135,000</u>	<u>\$ 6,200,000</u>
Ending balance: Individually evaluated for impairment	<u>\$ 840,000</u>	<u>\$ 300,000</u>	<u>\$ 3,925,000</u>	<u>\$ -</u>	<u>\$ 5,065,000</u>
Ending balance: Collectively evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,135,000</u>	<u>\$ 1,135,000</u>
Loans receivable:					
Ending balance	<u>\$45,361,720</u>	<u>\$10,088,822</u>	<u>\$69,573,614</u>	<u>\$ -</u>	<u>\$125,024,156</u>



## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**9 - CAPITAL ASSET AND LEASING ACTIVITIES**

The Authority leases land, buildings, and equipment to commercial entities which are accounted for as operating leases. The leases expire over the next 1 to 13 years. Lessees of the property have the option to purchase the property at the end of the lease term at designated prices which are not considered bargain prices.

Real estate, property, and equipment include the following at June 30:

	<u>2016</u>	<u>2015</u>
Land held for sale	\$ <u>221,000</u>	\$ <u>221,000</u>
Held for lease:		
Land	\$ 12,864,677	\$ 13,964,677
Buildings and improvements	34,444,633	34,444,633
Equipment	<u>27,973,350</u>	<u>27,959,959</u>
	75,282,660	76,369,269
Less accumulated depreciation - buildings	(15,984,913)	(15,420,014)
Less accumulated depreciation - equipment	<u>(27,926,111)</u>	<u>(27,916,005)</u>
	<u>\$ 31,371,636</u>	<u>\$ 33,033,250</u>

Capital asset activity for the years ended June 30, 2016 and 2015, was as follows:

<u>June 30, 2016</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Land held for sale	\$ <u>221,000</u>	\$ -	\$ -	\$ <u>221,000</u>
Land held for lease	\$ 13,964,677	\$ -	\$(1,100,000)	\$12,864,677
Building and improvements	34,444,633	-	-	34,444,633
Equipment	<u>27,959,959</u>	<u>13,391</u>	-	<u>27,973,350</u>
	76,369,269	13,391	(1,100,000)	75,282,660
Less accumulated depreciation				
Building	(15,420,014)	(564,899)	-	(15,984,913)
Equipment	<u>(27,916,005)</u>	<u>(10,106)</u>	-	<u>(27,926,111)</u>
	<u>\$ 33,033,250</u>	<u>\$ (561,614)</u>	<u>\$ (1,100,000)</u>	<u>\$31,371,636</u>
<u>June 30, 2015</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Land held for sale	\$ <u>560,625</u>	\$ -	\$ (339,625)	\$ <u>221,000</u>
Land held for lease	\$ 13,742,401	\$ 222,276	\$ -	\$13,964,677
Building and improvements	34,444,633	-	-	34,444,633
Equipment	<u>27,951,767</u>	<u>8,192</u>	-	<u>27,959,959</u>
	76,138,801	230,468	-	76,369,269
Less accumulated depreciation				
Building	(14,855,113)	(564,901)	-	(15,420,014)
Equipment	<u>(27,904,582)</u>	<u>(11,423)</u>	-	<u>(27,916,005)</u>
	<u>\$ 33,379,106</u>	<u>\$ (345,856)</u>	<u>\$ -</u>	<u>\$33,033,250</u>

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**9 - CAPITAL ASSET AND LEASING ACTIVITIES (Continued)**

Under terms of the direct financing leases, either the lessor or lessee may elect to adjust the basic rent as of each successive fifth anniversary date following the lease commencement date by an amount necessary to fully amortize the initial purchase price based on the prevailing interest rate on such anniversary date. Future minimum lease payments are based on lease payments in effect at year end. The Authority's net investment in direct financing leases consisted of:

	<u>2016</u>	<u>2015</u>
Total minimum lease payments receivable	\$ 67,684,407	\$ 68,235,953
Less unearned interest	<u>(12,127,914)</u>	<u>(13,264,444)</u>
Total	55,556,493	54,971,509
Less current portion	<u>(4,675,493)</u>	<u>(3,607,224)</u>
Total noncurrent portion	<u>\$ 50,881,390</u>	<u>\$ 51,364,285</u>

At June 30, 2016, future minimum lease payments receivable under direct financing leases and non-cancellable operating leases in excess of one year are as follows:

<u>June 30</u>	<u>Operating Leases</u>	<u>Direct Financing Leases</u>	<u>Total</u>
2016	\$ 2,653,194	\$ 6,429,646	\$ 9,082,840
2017	2,599,794	6,429,646	9,029,440
2018	2,522,794	6,412,301	8,935,095
2019	2,522,794	5,907,523	8,430,317
2020	2,503,794	5,879,454	8,383,248
Thereafter	<u>10,977,004</u>	<u>36,625,837</u>	<u>47,602,841</u>
	<u>\$ 23,779,374</u>	<u>\$ 67,684,407</u>	<u>\$ 91,463,781</u>

Lease revenue includes interest from direct financing leases of \$1,732,950 and \$1,685,298 for the years ended June 30, 2016 and 2015, respectively.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**10 - LOANS PAYABLE**

	June 30	
	2016	2015
Revolving loan agreement with the West Virginia Board of Treasury Investments to borrow up to \$175 million to be re-loaned for economic development purposes, interest equal to the twelve-month average of the Board's yield on its cash liquidity pool, which was 0.20% for fiscal year 2016 and adjustable annually thereafter on July 1 of each consecutive year, monthly payments of principal and interest payable in an amount sufficient to repay the outstanding principal balance over 10 years, secured by a security interest in the investments derived from the loan	\$ 122,742,403	\$ 122,966,532
Note payable to West Virginia Board of Treasury Investments, non-recourse not to exceed \$25 million, interest at 3% per annum, principal due in annual installments through June 30, 2022, unsecured. Note repayments are dependent upon the proceeds received from the investments in venture capital funds.	1,248,427	1,922,904
Note payable to West Virginia Infrastructure and Jobs Development Council due in monthly installments of principal of \$10,417, final payment due October 1, 2023, note is noninterest bearing and secured by real estate.	927,033	1,052,037
Note payable to West Virginia Infrastructure and Jobs Development Council due in monthly installments of \$20,703, final payment due March 1, 2024, interest rate at 3% and secured by real estate.	1,715,921	1,909,567
Note payable to West Virginia Infrastructure and Jobs Development Council due in monthly installments of \$16,641, final payment due June 1, 2029, interest rate at 3% and secured by real estate.	2,147,217	2,280,140
Note payable to West Virginia Infrastructure and Jobs Development Council due in monthly installments of \$29,703, final payment due July 12, 2019, interest rate at 3% and secured by equipment.	1,046,948	1,366,653
Note payable to West Virginia Infrastructure and Jobs Development Council with payments deferred until March 1, 2021, final payment due February 1, 2025, interest rate at 3% and secured by equipment. Principal and interest will be forgiven if performance standards as defined in the performance agreement are met by January 31, 2018.	1,500,000	1,500,000

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**10 - LOANS PAYABLE (Continued)**

	June 30	
	2016	2015
Note payable to West Virginia Infrastructure and Jobs Development Council with payments deferred until November 16, 2017, at which time all principal and accrued interest at 3% interest rate shall be payable in full. Principal and interest will be forgiven if performance standards are defined in the performance agreement are met by October 15, 2017.	2,500,000	-
Total	133,827,949	132,997,833
Less current portion	(12,839,255)	(12,957,928)
Long term portion	<u>\$ 120,988,694</u>	<u>\$ 120,039,905</u>

June 30	Principal	Interest	Total
2017	\$ 12,839,255	\$ 565,032	\$ 13,404,287
2018	15,425,053	892,740	16,317,793
2019	12,992,048	450,540	13,442,588
2020	12,726,308	387,913	13,114,221
2021	12,757,000	485,296	13,242,296
2022-2026	66,516,087	998,688	67,514,775
2027-2031	572,198	26,884	599,082
	<u>\$ 133,827,949</u>	<u>\$ 3,807,093</u>	<u>\$ 137,635,042</u>

Changes in loans payable for the years ended June 30, 2016 and 2015 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
June 30, 2016	<u>\$ 132,997,833</u>	<u>\$ 14,516,407</u>	<u>\$ (13,686,291)</u>	<u>\$ 133,827,949</u>	<u>\$ 12,839,255</u>
June 30, 2015	<u>\$ 136,905,115</u>	<u>\$ 12,680,780</u>	<u>\$ (16,588,062)</u>	<u>\$ 132,997,833</u>	<u>\$ 12,957,928</u>

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**11 - RELATED PARTY TRANSACTIONS WITH THE STATE OF WEST VIRGINIA**

The Authority enters into certain transactions with various agencies of the State of West Virginia for financing, employee benefits, and other services.

Amounts due to other State of West Virginia agencies as of June 30 consisted of the following:

	<u>2016</u>	<u>2015</u>
Balances included in loans payable:		
WV Infrastructure & Jobs Development Council	\$ 9,837,119	\$ 8,108,397
WV Board of Treasury Investments	123,990,830	124,889,436
Balances included in amount due to the State Agencies:		
Lottery Commission	1,400,000	1,400,000
Development Office	73,667	7,000
Governor's Office	<u>43,351</u>	<u>43,351</u>
	<u>\$ 135,344,967</u>	<u>\$ 134,448,184</u>

**12 - COMMITMENTS AND CONTINGENCIES**

Commitments to extend credit are agreements between the Authority and borrowers which generally require the borrowers to meet certain conditions regarding the extension of credit and which expire on specified dates. In making these commitments, the Authority evaluates each borrower's creditworthiness. Upon extension of credit, the Authority requires the loan to be collateralized by equipment and/or real estate. At June 30, 2016, the Authority had committed to make loans of \$47,785,244. In order to fund these loans, the Authority will borrow \$41,906,261 from the BTI. The remaining \$5,878,983 will be provided from the Authority's available funds.

The Authority guarantees repayment of portions of certain loans made for economic development purposes under its Loan Insurance Program. These guarantees represent conditional commitments by the Authority to guarantee the performance of a borrower to a third party lender. The Authority annually reviews the outstanding Loan Insurance Program obligations with its established loan loss allowance account, and records a liability if and when the Authority recognizes that a claim is likely. As of June 30, 2016, the Authority's maximum exposure to financial guarantees expiring at various intervals through March 2026, is \$2,812,971. As of June 30, 2016 and 2015, loans of \$3,832,306 and \$2,606,702, respectively, were guaranteed under this program. Since the inception of the Loan Insurance Program, the maximum liability to the Authority, assuming no collateral value, has been less than the specified cash reserves set aside for future claims and liabilities. During the years ended June 30, 2016 and 2015, the Authority did not pay any claims under the Loan Insurance Program.

The Authority was directed by the State Legislature through Senate Bill 1013 to transfer \$3,500,000 to the West Virginia Department of Health and Human Resources Medical Services Trust Fund from the WVEDA Credit Insurance Fund. This transfer of funds occurred in July 2016.

**13 - RISK MANAGEMENT**

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and life coverage; and natural disasters. The State of West Virginia has established the Board of Risk and Insurance Management (BRIM) and the Public Employees Insurance Agency (PEIA) as risk pools to account for and finance uninsured risks of losses for State agencies, institutions of higher education, and component units.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**13 - RISK MANAGEMENT (Continued)**

BRIM is a public entity risk pool that provides coverage for general, property, medical malpractice, and automobile liability. PEIA is also a public entity risk pool that provides coverage for employee and dependent health, life and prescription drug insurance. The Authority retains the risk of loss on certain tort and contractor claims in excess of the amount insured or covered by BRIM's insurance carrier.

Through its participation in the PEIA, the Authority has obtained health coverage for its employees. In exchange for payment of premiums to PEIA, the Authority has transferred its risks related to health coverage of its employees.

The Authority carries workers compensation insurance coverage through a commercial carrier. The carrier is paid a quarterly premium to provide compensation for injuries sustained in the course of employment. In exchange for the payment of premiums, the Authority has transferred its risks for job-related injuries of employees.

There have been no changes in the coverages or amounts of coverage and there have been no claims in excess of coverage related to the Authority's risk management plan for the years ended June 30, 2016 and 2015.

**14 - EMPLOYEE BENEFITS**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. 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 with age and service equal to 80 or greater. The straight-life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. Average salary is the average of the highest annual compensation during any period of three consecutive years within the last fifteen years of earnings. For all employees hired 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. 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.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**14 - EMPLOYEE BENEFITS (Continued)***Contributions*

Although contributions are not actuarially determined, actuarial valuations are performed to assist the Legislature in establishing appropriate contribution rates. Current funding policy requires contributions, consisting of member contributions of 4.5% for all members hired before July 1, 2015, or member contributions of 6% for all members hired July 1, 2015 and later, and employer contributions of 13.5%, 14.0%, and 14.5% of covered payroll 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 \$82,252, \$84,516, and \$82,859, respectively.

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

At June 30, 2016 and 2015, respectively, the Authority reported a liability of \$248,574 and \$157,492 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 June 30, 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 0.044515 percent, which was an increase of .001842 from its proportion measured as of June 30, 2014.

For the years ended June 30, 2016 and 2015, respectively, the Authority recognized pension expense of \$34,845 and \$20,699. At June 30, 2016 and 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 75,839	\$ 130,347
Differences between expected and actual experience	50,839	-
Differences in assumptions	-	29,899
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	16,774	-
The Authority's contributions made subsequent to the measurement date of June 30, 2015	<u>82,252</u>	<u>-</u>
Total	<u>\$ 225,704</u>	<u>\$ 160,246</u>

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**14 - EMPLOYEE BENEFITS (Continued)**Pension Plan (Continued)

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

	June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 166,605
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	9,058	-
The Authority's contributions made subsequent to the measurement date of June 30, 2014	<u>84,516</u>	<u>-</u>
Total	<u>\$ 93,574</u>	<u>\$ 166,605</u>

\$82,252 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	\$ (11,242)
2018	(11,242)
2019	(13,267)
2020	18,957

*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.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2009 through June 30, 2014.



## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**14 - EMPLOYEE BENEFITS (Continued)**Pension Plan (Continued)*Actuarial Assumptions (Continued)*

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.2 percent
Salary increases	4.25 - 6.0 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense

Mortality rates were based on the 1983 GAM for healthy males, 1971 GAM for healthy females, 1971 GAM for disabled males, and Revenue Ruling 96-7 for disabled females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2004 through June 30, 2009.

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

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

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**14 - EMPLOYEE BENEFITS (Continued)**Pension Plan (Continued)*Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

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

	<u>1% Decrease (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 (assets)	\$ 573,275	\$ 248,573	\$ (25,751)

Other Post Employment Benefit Plan*Plan Description*

The Authority participates in the West Virginia Other Postemployment Benefit Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employees Insurance Agency (WVPEIA). The OPEB Plan provides retiree post-employment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended (the Code), assigns the authority to establish and amend benefit plans 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 writing to Public Employees Insurance Agency, 601 57<sup>th</sup> Street, S.E., Suite 2, Charleston, West Virginia, 25304-2345, or by calling 1-888-680-7342.

*Funding Policy*

The Code requires the OPEB Plan to 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 was billed and paid 100% of premiums for the ARC amounting to \$51,070, \$45,370, and \$31,460, respectively, for the years ending June 30, 2016, 2015, and 2014.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
(Continued)**15 - CONDUIT DEBT OBLIGATIONS**

The Authority has issued Industrial Development Revenue Bonds and Residential Care Facility First Mortgage Revenue Bonds to provide financial assistance to private-sector and governmental entities for the acquisition and construction of commercial and residential care facilities deemed to be in the public interest. The Authority has also issued Revenue Bonds to provide financial assistance to state and local governmental entities for the acquisition and construction of facilities deemed to be in the public interest. All of the bonds are secured by the property financed and revenues generated with the bond proceeds and are payable solely from payments received on the underlying obligations. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector or governmental entity served by the bond issuance. The Authority, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities of the Authority in the accompanying financial statements.

As of June 30, 2016 and 2015, there were 47 and 46 revenue bonds with principal amounts payable consisting of the following:

	<u>2016</u>	<u>2015</u>
Bonds backed by leases with other State agencies	\$ 574,190,160	\$ 550,290,491
Other bonds outstanding	<u>1,652,582,475</u>	<u>1,592,567,158</u>
	<u>\$ 2,226,772,635</u>	<u>\$ 2,142,857,649</u>

**16 - NEW ACCOUNTING PRONOUNCEMENTS**

The 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 No. 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 – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The provisions of Statements Nos. 73 and 74 are effective for financial statements for periods beginning after June 15, 2016; the provisions of Statement Nos. 75 and 82 are effective for periods beginning after June 15, 2017. The Authority's management has not determined the effect, if any, these statements will have on its financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

## SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

## Public Employees Retirement System Plan

	Years ended June 30	
	2016	2015
West Virginia Economic Development Authority's proportion liability (percentage) of the net pension	0.044515%	0.042673%
West Virginia Economic Development Authority's proportionate share of the net pension liability	\$ 248,573	\$ 157,492
West Virginia Economic Development Authority's covered employee payroll	\$ 603,684	\$ 571,445
West Virginia Economic Development Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll	41.18%	27.56%
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.

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

## SCHEDULE OF CONTRIBUTIONS TO THE PERS

	Years Ended June 30			
	2016	2015	2014	2013
Statutorily required contribution	\$ 82,252	\$ 84,516	\$ 82,859	\$ 77,531
Contributions in relation to the statutorily required contribution	<u>82,252</u>	<u>84,516</u>	<u>82,859</u>	<u>77,531</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
West Virginia Economic Development Authority's covered employee payroll	\$ 609,274	\$ 603,684	\$ 571,445	\$ 553,788
Contributions as a percentage of covered- employee payroll	13.50%	14.00%	14.50%	14.00%

## WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

**1 - TREND INFORMATION PRESENTED**

The accompanying schedules of the West Virginia Economic Development 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 after July 1, 2015 as follows:

- For employees hired prior to July 1, 2015, qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. For employees hired 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%

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the combined financial statements of the West Virginia Economic 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 combined financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 11, 2016.

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

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

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

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

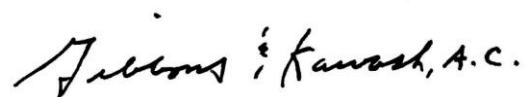
#### **Compliance and Other Matters**

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



**Purpose of this Report**

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



Charleston, West Virginia  
October 11, 2016