Report to the Authority Members

School Building Authority of West Virginia

June 30, 2016

DIXON HUGHES GOODMAN LLP

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Communications with Those Charged with Governance

January 11, 2017

Members
School Building Authority of West Virginia
Charleston, West Virginia

We have audited the financial statements of the School Building Authority of West Virginia (the "Authority") as of and for the year ended June 30, 2016, and have issued our report thereon dated January 11, 2017. Professional standards require that we provide you with information about our responsibilities in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 12, 2016. Professional standards also require that we communicate to you the following information related to our audit:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The most significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2016, except for the following which are described in Note 3 to the financial statements:

- During fiscal year 2016, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No 79, *Certain External Investment Pools and Pool Participants*. GASB 72 generally requires investments to be measured at fair value and disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques, organized by type of asset or liability reported at fair value. It also requires additional disclosures for investments in certain entities that calculate NAV per share (or its equivalent). GASB 79 establishes criteria for making the election to measure all of its investments at amortized cost for financial reporting purposes. The adoption of these standards had no effect on the Authority's balance sheet/statement of net position or statement of revenues, expenditures, and changes in fund balance, but primarily related to modifications to the disclosures related to the deposit and investment disclosures in Notes 3 and 4.

- During fiscal year 2016, the Authority also implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which identifies, in the context of the current government financial reporting environment, the hierarchy of generally accepted accounting principles ("GAAP"). This statement supersedes GASB Statement No. 55. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The sources of authoritative GAAP are categorized as follows: Category A – officially established accounting principles (GASB Statements) and Category B – GASB Technical Bulletins, GASB Implementation Guides, and literature of the AICPA cleared by the GASB. The adoption of this standard had no effect on the Authority's statements of net position or statements of revenues, expenses, and changes in net position.

- During fiscal year 2016, the Authority, along with other State of West Virginia agencies participating in PERS adopted GASB Statement 73, *Accounting and Financial Reporting for Pensions and related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and GASB Statement 82, *Pension Issues and Amendment of GASB Statements 67, 68, and 73.* The impact of adopting these statements was not material to the Authority's financial statements.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management, and are based on management's knowledge and experience about past and current events, and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the liability for other post-employment benefits (OPEB) is based on actuarially determined annual required contribution (ARC) provided by West Virginia Public Employees personnel, which are responsible for administering the West Virginia Retiree Health Benefit Trust Fund. We evaluated the key factors and ARC information used to develop the estimate of the OPEB liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the pension liability, related deferred inflows and pension expense is based upon an allocation of actuarially determined amounts for the West Virginia State Teachers Retirement System. We evaluated the key information, including the Schedules of employer allocations by Pension Amounts by Employer, audited by other auditors, in determining that the pension related amounts are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

Note 4 and 5 of the financial statements includes disclosures related to the Authority's investment portfolios which include investments with the West Virginia Board of Treasury Investments. Such disclosures include information on the various pools invested in and their respective risks (i.e. credit, custodial, concentration, interest rate).

Note 9 of the financial statements discloses the transactions with the State of West Virginia and related entities, which are significant revenue sources.

Note 10 highlights the outstanding commitments to provide grants to public school boards throughout the State.

The OPEB and pension disclosures in Notes 12 and 13 along with the required pension supplementary schedules are particularly sensitive because of the various assumptions (i.e. discount rate, investment rate of return, mortality rates, etc.) involved in the estimation process.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no uncorrected misstatements. Management recorded an adjustment of $3,232,107 to increase grants payable and related expense associated with grant expenditures incurred in fiscal year 2016 and paid by the Authority in the subsequent period. In addition, none of the other misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter included in Appendix A.

Management Consultations with Other Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School Building Authority of West Virginia's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Significant Matters, Findings, or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School Building Authority of West Virginia's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

With respect to the required supplementary information accompanying the financial statements as described below, we applied certain limited procedures in accordance with the 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. The required supplementary information included with the financial statements is as follows:

- Management Discussion and Analysis
- Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual Budgetary Basis- General Fund and Debt Service Fund
- Schedule of the Authority's Proportionate Share of the Net Pension Liability
- Schedule of the Authority's Contributions

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With respect to the other financial information accompanying the financial statements as described below, this information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The other financial information included with the financial statements is as follows:

- Form 7 Deposit Disclosure
- Form 8 Investment Disclosure
- Form 8a Deposits and Investments Reconciliation
- Form 15 Transfers in/out

This information is intended solely for the use of the Board and management of the School Building Authority of West Virginia and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

[Insert Firm Signature]

Charleston, West Virginia

Appendix A

Management Representation Letter

School Building Authority of West Virginia

2300 Kanawha Boulevard, East • Charleston, West Virginia 25311-2306 • Office Number (304) 558-2541 • FAX Number (304) 558-2539

January 11. 2017

Dixon Hughes Goodman LLP
P.O. Box 1747
Charleston, WV 25326

This representation letter is provided in connection with your audit of the financial statements of the School Building Authority of West Virginia (the "Authority"), which comprise the statement of net position of the governmental activities and each major fund as of June 30, 2016, and the respective changes in financial position, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter:

Financial Statements

1. We have fulfilled our responsibilities, as set forth in the terms of the audit engagement letter dated May 12, 2016, including our responsibly for the preparation and fair presentation of the financial statements and for the preparation of the supplementary information in accordance with applicable criteria.
2. The financial statements referred to above are fairly presented in accordance with U.S. GAAP and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.
3. The School Building Authority of West Virginia is an agency of The State of West Virginia and, accordingly, is included as part of the primary government in the State's Comprehensive Annual Financial Report.
4. We acknowledge our responsibility for 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.
5. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
6. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
7. We represent to you the following for the Authority's fair value measurements and disclosures:
    a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
    b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
    c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
    d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

8. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

9. The following have been properly accounted for and disclosed in the financial statements:
   a. Related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties
   b. Guarantees, whether written or oral, under which the Authority is contingently liable
   c. Other liabilities or gain or loss contingencies

10. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

11. There are no uncorrected misstatements or omitted disclosures that would impact the financial statements as of and for the year ended June 30, 2016.

12. There are no known effects of all known actual or possible litigation, claims, and assessments that should be accounted for or disclosed in accordance with U.S. GAAP. We have not consulted counsel related to ligation matters.

13. There are no guarantees, whether written or oral, under which the School Building Authority of West Virginia is contingently liable.

14. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made.

    a. Reduce investments and other assets which have permanently declined in value to their realizable values.
    b. For pension obligations and post-retirement benefits other than pensions.

15. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

16. During the year ended June 30, 2016, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application*, which, among other things, provides guidance for determining a fair value measurement for financial reporting purposes, guidance for applying fair value to certain investments and disclosures related to all fair value measurements and GASB Statement No 79, *Certain External investment Pools and Pool Participants*, which establishes the criteria for making the election to measure investments at amortized cost for financial reporting purposes The disclosures as presented in the financial statements are consistent with the objectives outlined in GASB 72 and GASB 79. The adoption of these standards had no effect on the SBA's balance sheet, statements of net position or statements of revenues, expenses/expenditures, and changes in fund balance/net position.

17. The Authority participates in the West Virginia Money Market Pool that is managed by the Board of Treasury Investments (BTI), the management of which is not under the Authority's control. GASB 79 establishes criteria for making the election to measure investments at amortized cost for financial reporting purposes. The West Virginia Money Market Pool has been deemed to meet the criteria and is reported at amortized cost. The criteria specify that the pool must transact with their participants at a stable net asset value per share and meet requirements for portfolio maturity, portfolio quality, portfolio diversification, portfolio liquidity, and shadow pricing. The BTI does not place limitations on or restrictions on participant withdrawls from the pool, such as redemption notice periods, maximum transaction amounts, and any authority to impose liquidity fees or redemption gates. Accordingly, as a pool participant the Authority measures its investment in this pool at amortized cost that approximates market value. The earnings from these pooled investments have been properly distributed to investment pool participants based on their pro rata participation in the pools. The methods and assumptions used to determine recorded value at amortized cost of financial instruments are appropriate for financial statement measurement and disclosure purposes.

18. Adequate disclosures required under GASB 40 for deposits and investments have been included in the financial statements for risk disclosures. To our knowledge, none of the Authority's investments has permanently declined in value to an amount less than the carrying value in the financial statements.

19. We have no direct or indirect, legal or moral, obligation for any debt of any organization, public or private that is not disclosed in the financial statements.

20. The School Building Authority of West Virginia has properly recorded and disclosed postretirement benefits other than pensions. We acknowledge that these liabilities are due on demand.

21. During fiscal year 2016, the Authority, along with other State of West Virginia agencies participating in PERS adopted GASB Statement 73, *Accounting and Financial Reporting for Pensions and related Assets That Are Not within the Scope of GASB 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, GASB Statement 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and GASB Statement 82, *Pension Issues and Amendment of GASB Statements 67, 68, and 73*. The impact of adopting these statements was not material to the Authority's financial statements.

22. We have properly accounted for our pension obligation and related accounts and disclosures in accordance with adoption of GASB Statement No. 68, Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68. We believe that the actuarial assumptions and methods used to measure the pension liability and cost for financial reporting purposes are appropriate in the circumstances. We agree with and have also properly recorded and disclosed pension expense and on-behalf revenue for the amount related to support provided by the State related to the State's funding of the non-employer contributing entity unfunded liability. We also agree with and have also properly disclosed the State's proportionate share of the net pension liability associated with the Authority as of June 30, 2016 and June 30, 2015. Although the estimated pension obligation associated with the State Teachers Retirement System for June 30, 2015 was reestimated and restated in the current year the impact of such restatement related to the Authority are immaterial and no restatement of the Authority's financial statements as of and for the year ended June 30, 2015 are deemed necessary.

23. During fiscal year 2016, the Authority also implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which identifies, in the context of the current government financial reporting environment, the hierarchy of generally accepted accounting principles ("GAAP"). This statement supersedes GASB Statement No. 55. The adoption of this standard had no effect on the Authority's financial statements.

24. We have not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Nos. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* as discussed in Note 13. The SBA is therefore unable to disclose the impact that adopting this GASB will have on its financial position or results of operation when the GASB is adopted.

Information Provided

25. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
    b. Additional information that you have requested from us for the purpose of the audit.
    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
    d. Minutes of board meetings for the School Building Authority of West Virginia or summaries of actions of recent meetings for which minutes have not yet been prepared.

26. All transactions have been recorded in the accounting records and are reflected in the financial statements.

27. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

28. We have no knowledge of any fraud or suspected fraud affecting the School Building Authority of West Virginia involving:

    a. Management.
    b. Employees who have significant roles in internal control.
    c. Others where the fraud could have a material effect on the financial statements.

29. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority's financial statements received in communications from employees, former employees, analysts, regulators, short sellers, or others.

30. There are no known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, grant agreements, or abuse whose effects should be considered when preparing financial statements.

31. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements and we are not aware of any such matters that would require specific disclosure in or accrual of a liability for in the financial statements.

32. We have disclosed to you the identity of the School Building Authority of West Virginia's related parties and all the related party relationships and transactions of which we are aware.

33. A portion of the 2008 Excess Lottery Revenue Bonds (2008 Series) were redeemed in conjunction with the Series 2015A Lottery Capital Improvement Revenue bonds (2015A Bonds) issued. The redeemed 2008 Series bonds met the in-substance debt defeasance requirements of GASB No. 7 and have been removed from the Authority's Long-term debt obligations. The net proceeds from the 2015A Bonds were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the 2008 Bonds mature or are called.

34. The Authority has properly disclosed all amounts still outstanding at June 30, 2016 related to previously defeased debt.

35. On January 14, 2016 we issued the 2016A Excess Lottery Revenue Bonds of $21,340,000 which bears interest of 3.00% to 5.00%. The net proceeds from the issuance of the revenue bonds will be used for future school construction projects. A premium of $3,961,699 was recorded and will be amortized over the term of the issued bond. Principal and interest payments are payable throughout the life of the 2016A Excess Lottery Revenue Bonds which mature on July 1, 2031.

36. We agree with the findings of specialists in evaluating the arbitrage exposure and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.

Government - Specific

37. We have made available to you all financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.

38. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

39. We have a process to track the state of audit findings and recommendations; however, there were none for the current year.

40. We have identified to you and previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

41. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report, if any.

42. The School Building Authority of West Virginia has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, fund balance or net position.

43. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

61. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.

62. We have disclosed to you all contracts or other agreements with service organizations, and there have been no communications from the service organizations relating to noncompliance or fraud at the service organizations.

63. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

64. With respect to the management discussion and analysis, the budgetary comparison schedules general fund and debt service fund, schedule of proportionate share of net pension liability, and schedule of contributions (collectively supplementary information):

    a. Management's discussion and analysis is based on facts, decisions, or conditions currently known to management and does not contain forecasts or other prospective information.
    b. We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
    c. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

65. All capital grant activity has been appropriately disclosed in the financial statements of the School Building Authority of West Virginia as of and for the period ending June 30, 2016.

66. Except as disclosed in Note 9 of the financial statements, the School Building Authority of West Virginia is not aware of any other significant commitments related to the capital granting process.

We have evaluated subsequent events through the date of this letter, which is the date the financial statements were available to be issued. No events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements, except as disclosed to you and in the notes to the financial statements related to new debt issuance subsequent to June 30, 2016.

Scott Raines, Acting Executive Director

Garry R. Stewart

Garry Stewart, Director of Finance

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Appendix B

Financial Statements

School Building Authority Of West Virginia (A Component Unit Of The State Of West Virginia)

Financial Statements, Required Budgetary Supplementary Information and Other Financial Information

Year Ended June 30, 2016

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Members
School Building Authority of West Virginia
Charleston, West Virginia

We have audited the accompanying financial statements of the governmental activities and each major fund of the School Building Authority of West Virginia (the "Authority"), a component unit of the State of West Virginia, as of and for the year ended June 30, 2016implementation, 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.

Auditors' Responsibility

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

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

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

Opinion

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

Basis of Presentation

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position of the governmental activities and each major fund of the Authority, and the respective changes in financial position of only that portion of the governmental activities of the State of West Virginia that are attributable to the transactions of the Authority. They do not purport to, and do not present fairly the financial position of the State of West Virginia as of June 30, 2016, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

DIXON HUGHES GOODMAN LLP

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, the required supplementary information on pages 27 through 31, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other financial information on pages 34 through 37 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This other information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other financial information on pages 33 through 36 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated January 11, 2017on 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.

[Insert Firm Signature]

Charleston, West Virginia
January 11, 2017

Management's Discussion and Analysis

Management's Discussion and Analysis

Our discussion and analysis of the School Building Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the Authority's financial statements, which begin on page 7.

Financial highlights

- The Authority's total fund balance increased by $21.7 million as a result of this year's operations. The fund balance of the Debt Service Fund increased by $14.2 million, or 13%. The fund balance of the Special Revenue Fund also increased by $7.4 million, or approximately 9%. The fund balance of the General Fund increased by $24,265 from the prior year.

- During the year, the Authority had revenues from intergovernmental allocations and investment income that were $18.4 million more than the $70.3 million that was spent on administrative expenses, capital project payments and interest on long-term debt. Last year's expenditures exceeded revenues by $5.9 million.

- Intergovernmental revenues reduced in the current year to $84.7 million. Investment return increased by $1.7 million due to improved market conditions.

- Expenses in the Authority's Governmental Fund Types activities reduced by $32.9 million, or 25%, to $97.7 million during the year. Payments under capital grants decreased by $28.3 million and debt service on the long-term debt also decreased by $4.7 million. Personal services and other administrative expenses increased by $51,104 from the prior year.

Presentation of condensed financial information

Statement of Net Position (in thousands):

	2016	2015	Change Amount	Change Percent
ASSETS				
Cash and cash equivalents	**$ 159,452**	$ 128,702	$ 30,750	24 %
Investments	**70,922**	75,534	(4,612)	(6)
Accrued interest receivable	**283**	250	33	13
Prepaid Insurance	**155**	180	(25)	(14)
Capital assets, net	**734**	739	(5)	(1)
Total assets	**231,546**	205,405	26,141	13 %
Deferred outflows of resources:				
Deferred loss on refundings	**8,842**	3,050	5,792	190
Deferred outflows related to pension	**85**	58	27	47
Total assets and deferred outflows	**240,473**	208,513	31,960	15 %
LIABILITIES				
Current liabilities	**12,807**	8,307	4,500	54 %
Net pension liability	**439**	600	(161)	(27)
Long-term notes payable	**470,477**	461,235	9,242	2
Total liabilities	**483,723**	470,142	13,581	3
Deferred inflows of resources:				
Deferred inflows related to pension	**81**	147	(66)	(45)
Total liabilities and deferred inflows of resources	**483,804**	470,289	13,515	3 %
Net position:				
Net investment in capital assets	**734**	739	(5)	(1)
Restricted for debt service	**123,637**	109,418	14,219	13
Unrestricted	**(367,702)**	(371,933)	4,231	(1)
Net (deficit) position	**$ (243,331)**	$ (261,776)	$ 18,445	(7)
Statement of changes in net position:				
Revenues:				
Intergovernmental	**84,708**	92,604	(7,896)	(9) %
Interest income	**2,673**	1,570	1,103	70
Change in fair value of investments	**1,330**	781	549	70
	88,711	94,955	(6,244)	(7)
Expenses:				
Capital grants	**56,755**	85,025	(28,270)	(33)
Interest	**12,503**	14,629	(2,126)	(15)
Other	**1,008**	1,176	(168)	(14)
	70,266	100,830	(30,564)	(30)
Change in net position	**18,445**	(5,875)	24,320	414 %
End of year net position	**$ (243,331)**	$ (261,776)	$ 18,445	(7) %

The Authority as a whole

The Authority's government-wide change in net position increased by $18.4 million, from a deficit of $261.8 million to a deficit of $243.3 million. The government-wide change in net position increased by $5.9 million in the prior year.

Unrestricted net position, the portion of the net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, changed from a deficit of $371.9 million at June 30, 2015 to a deficit of $367.7 million at the end of this fiscal year.

The deficit in unrestricted net position arose from the issuance of revenue bonds to replace or improve school facilities in the state of West Virginia and the Authority's policy to grant ownership of these new and renovated buildings to the local county boards of education. The Authority will receive $23 million per year from an allocation by the WV Department of Education through June 30, 2022 for debt service. At that time, the debt service payments dedicated from Step 7 of the Department of Education's funding formula will be allocated to the Authority's pay-as-you-go construction program. The West Virginia Supreme Court has ruled that any future allocations for debt service from Step 7 of the school funding formula is unconstitutional.

Intergovernmental revenues decreased by approximately $8.0 million during the year. The amount of intergovernmental revenues is anticipated to remain at a comparable level in future years.

During fiscal year 2016, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No 79, *Certain External Investment Pools and Pool Participants*. GASB 72 generally requires investments to be measured at fair value and disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques, organized by type of asset or liability reported at fair value. It also requires additional disclosures for investments in certain entities that calculate NAV per share (or its equivalent). GASB 79 establishes criteria for making the election to measure all of its investments at amortized cost for financial reporting purposes. The Authority participates in BTI's West Virginia Money Market Pool, which has been deemed to meet the criteria and is reported at amortized cost. Accordingly, as a pool participant, the Authority measures its investment in this pool at amortized cost. The adoption of the these standards had no effect on the Authority's balance sheet, statement of net position or statements of activities or revenues, expenditures, and changes in net position or fund balance, but primarily related to modifications and additions to the disclosures related to the Authority's deposits and investments.

The Authority's funds

During the year ended June 30, 2016, the Authority's governmental funds reported a combined fund balance of $217.9 million, which is a $21.7 million increase, or 11%, more than last year's balance of $196.2 million.

The Authority spent $56.8 million this year on school construction projects. The special revenue fund balances at the beginning of the year include prior year allocations to finance these projects. Although these construction expenditures reduced the available fund balance, additional allocations from the State of West Virginia for school construction of $24.2 million, net investment income of $0.4 million and net transfers from other funds of $9.0 million resulted in fund balance being $94.5 million at June 30, 2016.

The fund balance of the debt service fund increased by $14.2 million this year as a result of scheduled principal payments and the refunding of 2008 Excess Lottery Revenue Bonds. The ending fund balance for the debt service fund was $123.6 million at June 30, 2016, which is equal to the amount that is required to be maintained by the Authority as debt service reserve funds, bond sinking funds and capitalized interest accounts in accordance with the bond indentures.

General fund budgetary highlights

The West Virginia Legislature allocates the amount of the Authority's operations budget each year during their legislative session. The Authority receives operational funds from interest income on trust fund investments as prescribed by the West Virginia Code.

The actual charges to operations (expenditures) were $119,065 below the final budget amounts. Resources available for operations (debt service fund transfers) were $170,402 below the final budgeted amount. The Authority transfers funds into its non-interest bearing operational expense account (maintained in the West Virginia Treasury) in increments of $200,000 per transfer in order to maximize interest income. This investment policy may cause annual positive and negative variances based on the timing of fund transfers.

Debt service fund budgetary highlights

The Authority submits an annual budget to the West Virginia Legislature each year that includes the actual debt service payments from the General Revenue Fund (Series 2002 Bonds and Series 2007 Bonds), the Regular Lottery Fund (Series 2004 Bonds) and the Excess Lottery Fund (Series 2008 Bonds, Series 2009A Bonds, Series 2009B Bonds, Series 2010A Bonds and Series 2010B Bonds).

Debt administration

At year-end, the Authority had $470.5 million in bonds outstanding compared to $461.2 million at June 30, 2015, an increase of 2%. The increase of $9.2 million was caused by principle bond payments, the amortization of unamortized premiums and discounts associated with bond issuance during the current period and the refunding activity.

The Authority maintains the second highest possible bond rating by the national rating agencies. Since the Authority receives all its debt service funding from allocations provided by the West Virginia Lottery, any bonds issued by the Authority will always be assigned a debt rating based on the performance of the West Virginia Lottery.

Economic factors and next year's budgets

The State has been able to maintain a favorable General Fund Position as a result of conservative budgeting practices. The State's general revenues were able to reach the budgeted estimated revenue and the Legislature did not budget all of the estimated funds that were available in the State's budget. This resulted in an overall budget surplus. Mindful of the slow economic recovery and changes to the federal Medicare reimbursement rate, State officials have directed most state agencies to maintain their budgets at the current levels for the fiscal year beginning July 1, 2016.

The Authority has received approval in the State of West Virginia budget bill that includes a $60.4 million allocation for debt service payments for the year ending June 30. 2017. The sources of these debt service allocations are $23.4 million from the General Revenue Fund, $18.0 million from the Regular Lottery Fund and $19.0 million from the Excess Lottery Fund.

The Authority receives its allocation for the pay-as-you-go construction from non-appropriated sources. These allocations are part of the state code of West Virginia and any increases or decreases require a vote by both houses of the legislature and the signature of the governor. The Authority is supposed to receive a $24.2 million allocation for the pay-as-you-go program for the year ending June 30, 2017.

This financial report is designed to provide our citizens, taxpayers, bondholders and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority at 2300 Kanawha Boulevard East, Charleston, West Virginia 25311-2306.

Financial Statements

School Building Authority of West Virginia
Governmental Funds Balance Sheet / Statement of Net Position
June 30, 2016

	General Fund	Special Revenue	Debt Service
ASSETS			
Cash and cash equivalents	$ 104,761	$ 106,915,469	$ 52,431,844
Investments	-	-	70,922,167
Accrued interest receivable	-	-	283,169
Prepaid insurance	-	-	-
Capital assets, net	-	-	-
Total assets	104,761	106,915,469	123,637,180
Deferred outflows of resources:			
Deferred loss on bond refundings	-	-	-
Deferred outflows related to pension	-	-	-
Total assets and deferred outflows	$ 104,761	$ 106,915,469	$ 123,637,180
LIABILITIES			
Accounts payable	$ 7,163	$ -	$ -
Capital grants payable	-	12,447,211	-
Compensation payable	36,130	-	-
Compensated absences	-	-	-
Other post employment benefits payable	269,042	-	-
Net pension liability	-	-	-
Long-term debt obligations:			
Due within one year	-	-	-
Due after one year	-	-	-
Total liabilities	312,335	12,447,211	-
Deferred inflows of resources:			
Deferred inflows related to pension	-	-	-
Total liabilities and deferred inflows	312,335	12,447,211	-
Fund balances (deficit):			
Restricted	-	94,468,258	123,637,180
Unassigned	(207,574)	-	-
Total fund balances (deficit)	(207,574)	94,468,258	123,637,180
Total liabilities and fund balances (deficit)	$ 104,761	$ 106,915,469	$ 123,637,180
Net position:			
Net investment in capital assets			
Restricted for debt service			
Unrestricted			
Total net position (deficit)			

See accompanying notes.

Total	Adjustments (Note 2)	Statement of Net Position
$ 159,452,074	$ -	$ 159,452,074
70,922,167	-	70,922,167
283,169	-	283,169
-	154,247	154,247
-	733,903	733,903
230,657,410	888,150	231,545,560
-	8,842,405	8,842,405
-	85,046	85,046
$ 230,657,410	9,815,601	240,473,011
$ 7,163	-	7,163
12,447,211	-	12,447,211
36,130	-	36,130
-	48,300	48,300
269,042	-	269,042
-	438,835	438,835
-	28,345,000	28,345,000
-	442,131,581	442,131,581
12,759,546	470,963,716	483,723,262
-	80,988	80,988
12,759,546	471,044,704	483,804,250
218,105,438	(218,105,438)	-
(207,574)	207,574	-
217,897,864	(217,897,864)	-
$ 230,657,410		
	733,903	733,903
	123,637,180	123,637,180
	(367,702,322)	(367,702,322)
	$ (243,331,239)	$ (243,331,239)

School Building Authority of West Virginia
Governmental Funds Revenues, Expenditures and Changes in Fund Balances (Deficit) / Statement of Activities
Year Ended June 30, 2016

	General Fund	Special Revenue	Debt Service
Revenues:			
Intergovernmental	$ 75,602	$ 24,216,996	$ 60,415,047
Interest income, net of arbitrage rebate	-	374,648	2,298,516
Increase in fair value of investments	-	-	1,330,412
	75,602	24,591,644	64,043,975
Expenditures:			
Capital grants	-	56,754,950	-
Debt service:			
Principal	-	-	25,900,000
Payment to refunded bond escrow agent			1,286,768
Interest	-	-	12,457,192
Personal services	1,038,212	-	-
Other administrative	213,125	-	-
	1,251,337	56,754,950	39,643,960
Deficiency of revenue under expenditures	(1,175,735)	(32,163,306)	24,400,015
Other financing sources (uses):			
Transfers - internal activities	1,200,000	8,980,355	(10,180,355)
Proceeds from issuance of long-term debt	-	25,301,969	-
Proceeds from refunding bonds	-	75,793,805	-
Payment to refunded bond escrow agent	-	(70,479,838)	-
Total other financing sources (uses)	1,200,000	39,596,291	(10,180,355)
Excess (deficiency) of revenues and transfers in over (under) expenditures and transfers out	24,265	7,432,985	14,219,660
Change in net position	-	-	-
Fund balances (deficit) / net position:			
Beginning of year	(231,839)	87,035,273	109,417,520
End of year	$ (207,574)	$ 94,468,258	$ 123,637,180

See accompanying notes.

Total	Adjustments (Note 2)	Statement of Net Position
$ 84,707,645	$ -	$ 84,707,645
2,673,164	-	2,673,164
1,330,412	-	1,330,412
88,711,221	-	88,711,221
56,754,950	-	56,754,950
25,900,000	(25,900,000)	-
1,286,768	(1,286,768)	-
12,457,192	45,974	12,503,166
1,038,212	(248,083)	790,129
213,125	5,397	218,522
97,650,247	(27,383,480)	70,266,767
(8,939,026)	8,939,026	-
-	-	-
25,301,969	(25,301,969)	-
75,793,805	(75,793,805)	-
(70,479,838)	70,479,838	-
30,615,936	(30,615,936)	-
21,676,910	(21,676,910)	-
-	18,444,454	18,444,454
196,220,954	(457,996,647)	(261,775,693)
$ 217,897,864	$ (461,229,103)	$ (243,331,239)

Notes To Financial Statements

Notes To Financial Statements

1. Summary Of Significant Accounting Policies

Basis of presentation

The financial statements of the School Building Authority of West Virginia (the “Authority”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-selling body for establishing governmental accounting and financial reporting principles. The Authority's significant accounting policies are described below.

The basic financial statements of the Authority are intended to present the financial position and changes in financial position of only that portion of the governmental activities of the State that is attributable to the transactions of the Authority. They do not purport to, and do not present fairly the net position of the State as of June 30, 2016, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP).

Reporting entity

The Authority was created under the provisions of Chapter 18, Article 90 (the Act), of the Code of West Virginia (the State) 1931, as amended. Under the Act, the Authority is to "facilitate and provide State funds for the acquisition, construction, and maintenance of elementary and secondary public school facilities so as to meet the educational needs of the people of the State in an efficient and economical manner". The Authority's program is designed to provide modern, efficient public school facilities throughout the State by promoting the consolidation of elementary and secondary public schools, enabling the State to more efficiently utilize its educational resources.

The Authority is governed by a ten-member board appointed by the Governor. The Governor serves as President of the Authority. The remaining nine members consist of three members of the State Board of Education and six citizens, one of whom must be a representative of the construction trades. The Authority is considered a component unit of the State of West Virginia (State) and its financial statements are discretely presented in the State's comprehensive annual financial report.

The Authority has considered all potential component units to be included in the Authority's reporting entity by applying the criteria set forth in GAAP. These criteria include consideration of organizations for which the Authority is financially accountable, or organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. Since no organizations meet these criteria, the Authority has no component units.

Government-wide and fund financial statements

The Authority's financial statements present the government-wide financial statements (i.e., the statement of net position and the statement of activities) and fund financial statements (i.e., the governmental funds balance sheet and statement of governmental fund revenues, expenditures, and changes in fund balances) in a combined format, which present the fund financial statements with required adjustments as a separate column and the government-wide financial statements on the same set of statements.

The government-wide financial statements report information on all activities of the Authority. The effect of interfund activity has been removed from these statements. The Government-wide financial statements reflect a net deficit at June 30, 2016, which is primarily driven by future obligations related to long-term debt as disclosed within Note 7. These revenue bonds are secured by and expected to be satisfied from certain net profits of the West Virginia Lottery.

The fund financial statements are provided for all major individual governmental funds as separate columns. The Authority does not have any non-major funds. The general fund reflects a net deficit at June 30, 2016. Management has the intent and ability to allocate additional interfund resources from special revenues, if necessary, to help the general fund meet its obligations as they become due.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting.* Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, regardless of the timing of related cash flows. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments are recorded when payment is due.

The Authority reports the following major governmental funds:

- *General Fund* – This fund is used to account for all financial resources, except those required to be accounted for in another fund. At June 30, 2016, the general fund had a deficit, primarily due to management not electing to transfer funds to cover long-term liabilities of the fund. Management plans for addressing this fund deficit are to satisfy future cash flow requirements by inter-fund transfer from other funds to the general fund as permitted by the annual budgeting process in future years.

- *Special Revenue Fund* – This fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Funds granted from the Special Revenue Fund are used by grantees for financial resources accumulated for the acquisition, construction and improvement of public school facilities.

- *Debt Service Fund* – This fund is used to account for financial resources accumulated to repay long-term obligations and interest thereon.

Budgetary accounting

The Authority's expenditures are subject to the legislative budget process of the State, with annual budgets adopted utilizing the cash basis of accounting. The cash basis is modified at year end to allow for payment of invoices up to 31 days after year end for goods or services received prior to year-end. Appropriated budgeted expenditures, which lapse 31 days after the end of the fiscal year, are incorporated into the Authority's overall financial plan. Expenditures are budgeted using natural categories of activity. Any revisions that alter the budgeted expenditures for the budgetary expenditure categories for the Authority as a whole must be approved by the Legislature.

Cash, cash equivalents and investments

Cash and cash equivalents include deposits with original maturities of less than three months, money market funds, and interest earning deposits with the State Treasurer of West Virginia and with the West Virginia Board of Treasury Investments (BTI). The investment in the BTI's West Virginia Money Market Pool is carried at amortized cost.

Employee benefits

The Authority's employees are covered by the West Virginia State Teachers Retirement System (STRS), a multiple-employer contributory defined benefit pension plan. The STRS covers all employees of the Authority and is funded according to matching portions of employee payroll prescribed by the plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, and information about the fiduciary net position of the STRS, such information has been determined on the same basis as they are reported by STRS. The actuarial cost method used was entry age normal with level l percentage of pay amortization. Investments are reported at fair value.

Authority employees generally earn vacation and sick leave on a monthly basis. Vacation, up to specific limits, is fully vested when earned and sick leave, while not vesting to the employee prior to retirement, can be carried over to subsequent periods. Any unused vacation and sick leave accumulated at retirement vests to the employee, which may be provided in the form of post retirement payment of a portion of the employee's health insurance premiums, or as service credits for retirement purposes. Expenditures for vacation, sick leave and post-employment health insurance premiums are recognized as incurred. The obligation for accumulated vested vacation leave and the estimated obligation for anticipated termination payments to current employees for conversion of unused sick leave to post-employment health insurance premiums (through the Authority's participation in the State's multi-employer cost sharing other post-employment benefits plan) are presented in the government-wide financial statements.

Interfund transactions

During the normal course of operations, certain transactions, including transfers of resources for Authority operations, occur between funds. Interfund transactions are recorded as operating transfers in the fund financial statements and have been eliminated in the government-wide financial statements. As provided for by House Bill 2764 for the period ending June 30, 2016, the Authority has transferred $10,180,355 from the Debt Service fund to the Special Revenue fund and General Fund.

Capital assets

Capital assets are reported at historical cost net of depreciation. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $10,000 and an estimated useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated economic useful lives of the assets (5 to 40 years).

Fund balances

In the governmental fund financial statements, fund balance is reported in the following two classifications:

- *Restricted* – Represents fund balance, which is restricted when constraints placed on its use of the resources are either: (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

- *Unassigned* – Fund balance that has not been reported in any other classification.

Net position

In the government-wide financial statements, net position is reported as the net investment in capital assets, restricted for debt service, or as unrestricted in accordance with U.S. generally accepted accounting principles. Restrictions of net position are the result of constraints placed on the use of net position, which have been imposed through debt covenants and by law through enabling legislation. When both restricted and unrestricted resources are available for use, it is generally the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deferred outflows of resources

Deferred outflows of resources represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The Authority's losses on refundings of bonds result from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Also, employer contributions to the State Teachers Retirement System (STRS) made during the year subsequent to the measurement date of the pension obligation are presented as deferred outflows of resources. Deferred outflows also consist of changes in proportion and differences between the Authority's contributions and proportionate share of contribution related to pension.

Deferred inflows of resources

A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. Balances of deferred inflows of resources may be presented in the Statement of Net Position or Governmental Fund Balance Sheet as aggregations of different types of deferred amounts. At June 30, 2016, deferred inflows were composed differences between actual and expected experience, changes in proportion and differences between the Authority's contributions and proportionate share of contributions, and differences between actual and projected earnings on investments related to pension.

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

Arbitrage rebate payable

The United States Internal Revenue Code of 1986, as amended (the "Code"), prescribes restrictions applicable to the Authority as issuer of Revenue Bonds. Among those, include restrictions on earnings on the bond proceeds. The Code requires payment to the federal government of investment earnings on certain bond proceeds in excess of the amount that would have been earned if the proceeds were invested at a rate equal to the yield on the bonds. As of June 30, 2016, management has determined that there is no obligation to the federal government for arbitrage.

2. Reconciliation Of Government-Wide And Fund Financial Statements

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

Total fund balances on governmental funds balance sheet	$ 217,897,864
Prepaid Insurance used in governmental activities is not a financial resource and, therefore, is not reported in the governmental funds balance sheet	154,247
Capital assets used in governmental activities is not a financial resource and, therefore, are not reported in the governmental funds balance sheet	733,903
Deferred losses on bond refundings reported in governmental activities is not a financial resource and, therefore, is not reported in the governmental funds balance sheet	8,842,405
Deferred inflows of resources are not financial resources and therefore are not reported in the governmental funds balance sheet	(80,988)
Deferred outflows of resources are not financial resources and therefore are not reported in the governmental funds balance sheet	85,046
Net Pension liability is not due and payable in the current period and therefore are not reported in the funds	(438,835)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet	(48,300)
Long-term debt obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet	(470,476,581)
Net position (deficit) of governmental activities	$ (243,331,239)

Amounts reported in the statement of activities differ from the statement of governmental fund revenues, expenditures, and changes in fund balances because of the following:

Deficiency of revenues and transfers in under expenditures and transfers out-governmental funds	$ 21,676,910
Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities	58,728
Net pension benefit does not require the use of current financial resources and therefore are not reported in governmental funds	195,965
Expenses associated with compensated absences that will not be paid with current financial resources are not reported in the governmental funds	(6,610)
Amortization of deferred charges associated with long-term debt obligations do not affect current financial resources, therefore, are not reported in the governmental funds	(45,974)
Depreciation expense related to capital assets is not reported in the governmental funds because it does not affect current financial resources	(5,397)
Principal payments and payments to refunded bond escrow agent that are reported as expenditures of governmental funds do not affect the change in net position in the government-wide statement of activities	27,186,768
Proceeds from refunding bonds that are reported as increase in fund balance in the governmental funds but does not result in a change in net position in the government-wide statement of activities	(75,793,805)
Proceeds from issuance of long-term debt is reported as an increase in fund balance in the government funds but does not result in a change in net position in the government-wide state of activities	(25,301,969)
Payments to refunded bond escrow agent are reported as a decrease in fund balance in the government funds but does not result in a change in net position in the government-wide state of activities	70,479,838
Change in net position - statement of activities	$ 18,444,454

3. Adoption of New Accounting Pronouncements

During fiscal year 2016, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No 79, *Certain External investment Pools and Pool Participants*. GASB 72 generally requires investments to be measured at fair value and disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques, organized by type of asset or liability reported at fair value. It also requires additional disclosures for investments in certain entities that calculate NAV per share (or its equivalent). GASB 79 establishes criteria for making the election to measure all of its investments at amortized cost for financial reporting purposes. The Authority participates in BTI's West Virginia Money Market Pool, which has been deemed to meet the criteria and is reported at amortized cost. Accordingly, as a pool participant the Authority measures its investment in this pool at amortized cost. (See Note 4). The adoption of the these standards had no effect on the Authority's balance sheet, statement of net position or

statements activities or revenues, expenditures, and changes in net position or fund balance, but primarily related to modifications and additions to the disclosures related to the Authority's deposits and investments in Notes 4 and 5.

During fiscal year 2016, the Authority also implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which identifies, in the context of the current government financial reporting environment, the hierarchy of generally accepted accounting principles ("GAAP"). This statement supersedes GASB Statement No. 55. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The sources of authoritative GAAP are categorized as follows: Category A – officially established accounting principles (GASB Statements) and Category B – GASB Technical Bulletins, GASB Implementation Guides, and literature of the AICPA cleared by the GASB. The adoption of the this standard had no effect on the Authority's balance sheet, statement of net position or statements activities or revenues, expenditures, and changes in net position or fund balance.

4. Deposits And Investments

The Authority has adopted investment guidelines that are consistent with those specified in the bond trust indentures for its outstanding bonds. Those guidelines authorize the Authority to invest all bond proceeds and other revenues in obligations of the United States and certain of its agencies, certificates of deposit, direct and general obligations of states, repurchase agreements relating to certain securities, money market mutual funds, guaranteed investment contracts, and bond mutual funds. Investments are managed by the financial institution serving as the trustee for the Authority in accordance with the investment guidelines as specified.

The State Treasurer has statutory responsibility for daily cash management activities of the State's agencies, departments, boards and commissions and transfer of funds to the West Virginia Board of Treasury Investments (BTI) for investment in accordance with West Virginia Code, policies set by the BTI and by provisions of bond indentures and trust agreements when applicable. Certain of the Authority's cash balances are invested by the BTI in the BTI's West Virginia Money Market Pool, which are carried at amortized cost in accordance with the criteria established in GASB 79. The criteria specify that the pool must transact with their participants at a stable net asset value per share and meet requirements for portfolio maturity, portfolio quality, portfolio diversification, portfolio liquidity, and shadow pricing. The BTI does not place limitations on or restrictions on participant withdrawls from the pool, such as redemption notice periods, maximum transaction amounts, and any authority to impose liquidity fees or redemption gates. As of June 30, 2016, the Authority had $5,286,458 in BTI's West Virginia Money Market Pool. These deposits are reported as cash and cash equivalents. Investment income earned is pro-rated to the Authority at rates specified by the BTI based on the balance of the deposits maintained in relation to the total deposits of all state agencies participating in the pool. Such funds are available to the Authority with overnight notice. BTI's audited financial statements, including the West Virginia Money Market Pool, are available on their website www.wvbti.com.

West Virginia Money Market Pool

Interest rate risk

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

The overall weighted average maturity of the investments of the West Virginia Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from the 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 (WAM) for the various asset types in the West Virginia Money Market Pool.

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

Interest rate risk- other investments

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

Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years
Federal agency bonds	$ 70,922,167	$ 23,084,910	$ -	$ 24,326,178	$ 23,511,079
Money market funds	154,046,654	154,046,654	-	-	-
	$ 224,968,821	$ 177,131,564	$ -	$ 24,326,178	$ 23,511,079

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the WV Money Market Pools investment in a single corporate issuer. The BTI investment policy prohibits the Pool to hold corporate securities from investing more than 5% of their assets in any one corporate name or one corporate issue.

West Virginia statutes prohibit the West Virginia Money Market Pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2016, the pool did not have investments in any one private corporation or association that represented more than 5% of pool assets.

Concentration of credit risk- other investments

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

Type	Issuer	% of Investments
Money market funds	Aim Premier Institutional Money Portfolio	68.5%
Federal agency bonds	Federal Home Loan Bank	31.5%

Credit risk

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

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

The following table provides information on the credit ratings of the West Virginia Money Market Pool's investments (in thousands):

Security Type	Credit Rating Moody's	Credit Rating S&P	Carrying value (In Thousands)	% of Pool Assets
Commercial paper	P-1	A-1+	$ 290,118	18.65%
	P-1	A-1	632,773	40.68
Corporate bonds and notes	Aa1	AA-	23,014	1.48
	Aa3	AA-	15,000	.96
	A2	A	11,268	.72
U.S. agency bonds*	Aaa	AA+	9,499	.61
U.S. Treasury notes*	Aaa	AA+	231,398	14.88
U.S. Treasury bills*	P-1	A-1+	19,982	1.28
Negotiable certificates of deposit	Aa2	AA-	3,000	.19
	Aa3	AA-	6,000	.39
	P-1	A-1+	78,006	5.02
	P-1	A-1	121,001	7.78
Money market funds	Aaa	AAAm	72,370	4.65
Repurchase agreements (underlying securities):				
U.S. Treasury notes*	Aaa	AA+	42,100	2.71
			$ 1,555,529	100.00%

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

Other investments

The following table provides information on the credit rating of the Authority's investments:

Security Type	Fitch	Moody's	S&P	Fair Value
U.S. agency mortgage backed securities	AAA	Aaa	AA+	$ 70,922,167
Money market funds	AAA	Aaa	AAAm	154,046,654
				$224,968,821

Credit risk is managed by limiting investments to the following types of debt securities in accordance with the Authority's investment guidelines: direct obligations of or obligations guaranteed by the United States of America, the State or any other state, provided that obligations of other states meet certain requirements, obligations of certain federal agencies, certain types of indebtedness of public agencies or municipalities, corporate indebtedness meeting certain requirements, and repurchase agreements and investment contracts that meet certain requirements.

Custodial credit risk

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.

Custodial credit risk- other investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2016, the Authority held no securities that were subject to custodial credit risk.

Foreign currency credit risk -all investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. There are no securities that are subject to foreign currency risk.

A reconciliation of the investments disclosed in this note to the amounts reported in the Governmental Funds Balance Sheet/Statement of Net Position is as follows:

As disclosed in this Note:	
Total investments- BTI West Virginia Money Market Pool	$ 5,286,458
Total other investments	224,968,821
Deposits with the West Virginia Treasury	118,962
	$ 230,374,241
As reported in the Governmental Funds:	
Balance Sheet/Statement of Net Position:	
Investments	$ 70,922,167
Cash and Cash equivalents	159,452,074
	$ 230,374,241

5. Investments Measured at Fair Value

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

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

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

Level 2 inputs – Inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.

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

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

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

Investment Type	Level 1	Level 2	Level 3	Total
U.S. agency mortgage backed securities	$ -	$ 70,922,167	$ -	$ 70,922,167

6. Capital Assets

A summary of capital assets at June 30, 2016 follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Buildings	$ 1,018,648	$ -	$ -	$ 1,018,648
Less accumulated depreciation	(279,348)	(5,397)	-	(284,745)
Total capital assets, net	$ 739,300	$ (5,397)	$ -	$ 733,903

7. Long-Term Debt

The Authority issued revenue bonds to make grants to finance capital improvements to public schools located in the State of West Virginia. The revenue bonds are considered special obligation bonds, which are secured by and made payable from certain net profits of the West Virginia Lottery.

Bonds issued and outstanding at June 30, 2016, are as follows:

	Original Issue Amount	Outstanding At June 30, 2016
2007A Capital Improvement Revenue Refunding Bonds 3.70% to 5.00%, maturing through July 2022	$ 185,980,000	$ 109,075,000
2008 Excess Lottery Revenue Bonds 3.00% to 5.00%, maturing through July 2028	102,145,000	13,690,000
2009A Excess Lottery Revenue Bonds 6.92%, maturing through June 2024	30,000,000	30,000,000
2009B Excess Lottery Revenue Bonds 5.91 %, maturing through June 2026	48,200,000	48,200,000
2010A Excess Lottery Revenue Bonds 5.36% maturing through June 2027	72,280,000	72,280,000
2010B Excess Lottery Revenue Bonds 2.00% to 5.00%, maturing through July 2030	25,000,000	21,870,000
2012A Lottery Capital Improvement Revenue Bonds 3.00% to 5.00%, maturing through July 2027	25,575,000	24,075,000
2013A Lottery Capital Improvement Revenue Bonds 3.00% to 5.00%, maturing through July 2028	24,425,000	23,095,000
2014A Lottery Capital Improvement Revenue Bonds 3.00% to 5.00%, maturing through July 2029	26,055,000	24,840,000
2015A Lottery Capital Improvement Revenue Bonds 3.00% to 5.00%, maturing through July 2028	63,640,000	63,640,000
2016A Lottery Capital Improvement Revenue Bonds 3.00% to 5.00%, maturing through July 2029	21,340,000	21,340,000
Total revenue bonds payable	$ 624,640,000	$ 452,105,000

Total revenue bonds payable	$ 452,105,000
Unamortized discount	(11,419,192)
Unamortized premium	29,790,773
Portion of bonds payable due within one year	(28,345,000)
	$ 442,131,581

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

	Beginning Balance	Additions	Reductions	Adjustments	Ending Balance	Due Within One Year
Bonds payable:						
2002A bonds	$ 5,250,000	$ -	$ 5,250,000	$ -	$ -	$ -
2007A bonds	120,940,000	-	11,865,000	-	109,075,000	18,035,000
2008A bonds	81,070,000	-	4,160,000	63,220,000	13,690,000	4,355,000
2009A bonds	30,000,000	-	-	-	30,000,000	-
2009B bonds	48,200,000	-	-	-	48,200,000	-
2010A bonds	72,280,000	-	-	-	72,280,000	-
2010B bonds	22,450,000	-	580,000	-	21,870,000	595,000
2012A bonds	25,575,000	-	1,500,000	-	24,075,000	1,560,000
2013A bonds	24,425,000	-	1,330,000	-	23,095,000	1,365,000
2014A bonds	26,055,000	-	1,215,000	-	24,840,000	1,325,000
2015A bonds	-	63,640,000	-	-	63,640,000	85,000
2016A bonds	-	21,340,000	-	-	21,340,000	1,025,000
	$ 456,245,000	$84,980,000	$25,900,000	$63,220,000	$452,105,000	$28,345,000

These bonds payable are limited obligations of the Authority payable from legislatively appropriated revenues from the net revenue of the West Virginia Lottery Commission. During the fiscal year ended June 30, 2016, the amount of Department of Education and Lottery revenue appropriated to pay the debt service on these bonds was $41,423,270, while the required debt service was $25,900,000 for principal and $12,457,192 related to interest.

Debt service costs on these bonds for each of the next five years and thereafter is as follows:

Year Ending June 30,	Principal	Interest	Total
2017	$ 28,345,000	$ 17,630,514	$ 45,975,514
2018	29,675,000	16,311,764	45,986,764
2019	36,065,000	14,911,139	50,976,139
2020	62,740,000	10,082,133	72,822,133
2021	154,720,000	8,480,133	163,200,133
2022-2026	81,075,000	25,618,153	106,693,153
2027-2031	59,485,000	7,129,475	66,614,475
	$452,105,000	$100,163,311	$552,268,311

The bonds are subject to the arbitrage rebate provisions of the Internal Revenue Code, which require that 90% of excess investment earnings on the bond proceeds be paid to the Internal Revenue Service (IRS) every five years in order for the bonds to maintain their tax-exempt status. At June 30, 2016, the Authority's estimated arbitrage rebate liability was zero.

On November 4, 2015, the Authority issued the 2015A Excess Lottery Revenue Refunding Bonds of $63,640,000 bearing interest of 3.00% to 5.00% to advance refund portions of the 2008 Excess Lottery Revenue Bonds. The net proceeds from the issuance of the revenue bonds were used to purchase U.S. Government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds mature or are called. The advance refunding met the requirements of an in-substance debt defeasance and the various bonds were removed from the Authority’s Long-term debt obligations. A loss associated with the refunding of $6,746,661 was recorded by the Authority as Deferred loss on bond refundings and will be amortized over the remaining terms of the refunded obligation. As a result of the advance refunding, the Authority reduced its total debt service requirements over the next thirteen years by $5,659,372, which resulted in an economic gain of $5,633,832. Since the proceeds of the new bonds were placed in irrevocable trusts to provide for all future debt service payments on the 2008 Excess Lottery Revenue Bonds, these trust

accounts assets and the liability for the defeased bonds are not included in these financial statements. At June 30, 2016, $63,220,000 of bonds outstanding are considered defeased.

On January 14, 2016, the Authority issued the 2016A Excess Lottery Revenue Bonds of $21,340,000 bearing interest of 3.00% to 5.00%. The net proceeds from the issuance of the revenue bonds will be used for future school construction projects. A premium of $3,961,699 was recorded and will be amortized over the term of the issued bond. Principal and interest payments are payable throughout the life of the 2016A Excess Lottery Revenue Bonds, which mature on July 1, 2031.

On November 1, 2016, the Authority issued the 2016B Excess Lottery Revenue Bonds of $21,255,000 bearing interest of 3.00% to 5.00%. The net proceeds from the issuance of the revenue bonds will be used for future school construction projects. A premium of $4,030,685 was recorded and will be amortized over the term of the issued bond. Principal and interest payments are payable throughout the life of the 2016B Excess Lottery Revenue Bonds, which mature on July 1, 2032.

8. Employee Related Liabilities

The following is a summary of employee related liabilities reported in the government-wide financial statements:

	Balance July **2015**	**2015**	**Balance** June 20, **2016**2015
Compensation payable	$ 26,171	$ 9,959	**$ 36,130**
Compensated absences	41,690	6,610	**48,300**
Net Pension liability	600,212	(161,377)	**438,835**
Other post-employment benefit payable	249,890	19,152	**269,042**
	$ 917,963	$ (125,656)	**$ 792,307**

9. Transactions With The State Of West Virginia

During the year ended June 30, 2016, the Authority received operating transfers from the State through the Department of Education of $23,423,270 for bond debt service and $24,216,996 for capital grants. The Authority also received from the West Virginia Lottery Commission $18,000,000 for bond debt service and $18,991,777 for capital grants during 2016.

10. Commitments

At June 30, 2016, the Authority had outstanding commitments in the amount of $119,696,639 to provide grants to county school boards throughout the State to finance the acquisition, construction and maintenance of elementary and secondary public school facilities.

11. Risk Management

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

The West Virginia Public Employees Insurance Agency (PEIA), a public entity risk pool, provides employee and dependent health, life, and prescription drug insurance coverage. PEIA determines premiums to be paid by participating/covered employers, including the Authority. In exchange for the payment of premiums to PEIA, the Authority has transferred its risks related to health coverage of employees.

The Authority, for an annual premium, obtains insurance coverage for general liability, property damage, business interruption, errors and omissions, and natural disasters through the West Virginia Board of Risk and Insurance Management, a public entity risk pool insuring the State, its component units, local government entities, and eligible not-for-profit organizations. Liability coverage provided to all insured entities under this policy is limited to $1,000,000 per occurrence, subject to an annual aggregate limit of coverage of $22,000,000. In each of the three fiscal years in the period ending June 30, 2016, the Authority's insurance coverage has been sufficient to meet all claims and settlements against the Authority. Additionally, the Authority purchased workers compensation insurance from a private insurance carrier. In exchange for payment of premiums to this carrier, the Authority has transferred its risks related to job-related injuries of employees.

The Authority is subject to certain claims that arise in the ordinary course of business. Many of these claims are in the early stages of the evaluation process. Accordingly, it is not possible at the present time to estimate the ultimate legal and financial liability, if any, with respect to certain lawsuits. Thus, no provision has been made in the financial statements for liabilities, if any, from such litigation. In the opinion of management, after consultation with counsel, adequate insurance exists, so the eventual outcome of such claims is not expected to have a material adverse effect on the Authority's financial position. However, depending on the amount and timing of such resolution, an unfavorable resolution of some or all of these matters could materially affect the future results of operations or cash flows in a particular period.

12. Pension Plan

Plan Description – The Authority contributes to the STRS, a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board (CPRB). Chapter 18, Article 7A of the West Virginia Code assigns the authority to establish and amend benefit provisions to the STRS Board of Trustees. CPRB issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report can be obtained by writing to CPRB, Capitol Complex, Building 5 Room 1000, Charleston, West Virginia 25305.

During fiscal year 2016, the Authority, along with other State agencies participating in STRS, adopted GASB Statement 73, *Accounting and Financial Reporting for Pensions and related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and GASB Statement 82, *Pension Issues and Amendment of GASB Statements 67, 68, and 73.* The impact of adopting these statements was not material to the financial statements.

Benefits provided – STRS provides retirement benefits as well as death and disability benefits. A member is eligible for normal retirement at age 60 with five years of service, age 55 with 30 years of service or any age with 35 years of service. A member may retire with 30 years of credited service at any age with the pension reduced actuarially if the member retires before age 55. Terminated members with at least five, but less than 20 years of credited service who do not withdraw their accumulated contributions are entitled to a deferred retirement commencing at age 62. Retirement benefits are equivalent to 2% of average annual salary multiplied by years of service. Average salary is the average of the five highest fiscal years of earnings.

Funding Policy – The STRS funding policy has been established by action of the State Legislature. The Authority accrued and paid its contribution to the STRS at the rate of 15% for each covered employee's total annual salary that was hired before 1991 and 7.5% for each covered employee's annual salary that was hired after 1991. Required employee contributions were at the rate of 6% of total annual salary. The Authority's contribution to the Plan, excluding the employee's contribution paid by the Authority, for the years ended June 30, 2016, 2015, and 2014 were $58,728, $57,585, and $80,141, respectively, which were equal to the required contributions.

Special Funding Situation – The State is a non-employer contributing entity that provides funding through the School Aid Formula (SAF) to subsidize employer contributions of county boards of education and to fund the unfunded liability of STRS for all participating employers. These amounts qualify as a special funding situation in

accordance with GASB 68. The State assumes a share of the net pension liability on behalf of the various county boards of education for contributions related to the SAF. The State also assumes a share of the net pension liability on behalf of all participating employers, including the Authority, for contributions related to funding of the non-employer contributing entity unfunded liability.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2016, the Authority reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Authority. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014, rolled forward to the measurement date of June 30, 2015. The 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 STRS and the State for the year ended June 30, 2015. At June 30, 2015, the Authority's proportionate share was 0.0127%, which was a decrease of 0.0047% from its proportionate share measured as of June 30, 2014.

At June 30, 2016, the Authority reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided the Authority. The amount recognized by the Authority as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Authority were as follows:

Authority's proportionate share of the net pension liability	$ 438,835
State's proportionate share of the net pension liability associated with the Authority	1,001,301
Total	$ 1,440,136

For the year ended June 30, 2016, the Authority recognized a net pension benefit of $120,363. The Authority also recognized additional pension expense of $75,602 and on-behalf revenue for the same amount related to support provided by the State related to the State's funding of the non-employer contributing entity unfunded liability. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 3,800
Differences between projected and actual investment earnings on pension plan investments	-	18,522
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	26,318	58,666
The Authority's contributions made subsequent to the measurement date of June 30, 2015 and 2014	58,728	-
Total	$ 85,046	$ 80,988

The amount of $58,728 was reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. The net difference between projected and actual investment earnings on pension plan investments is amortized over a five year period. All other deferred outflows of resources and deferred inflows of resources relating to pension amounts reported are amortized and included in

pension expense over the rounded average remaining service life of six years. 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	$ 9,729
2018	9,729
2019	9,729
2020	9,729
2021	9,729
Thereafter	6,025

Actuarial assumptions and methods – The total pension liability in the June 30, 2014 actuarial valuation, and rolled forward to June 30, 2015, was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	1.9%
Salary increases	3.40 – 6.5%, average, including inflation
Investment rate of return	7.5%, net of pension plan investment expense

Mortality rates were based on the RP-2000 Annuitant mortality tables projected to Scale AA, for post-retirement healthy and disabled participants, and RP-2000 Non-Annuitant mortality tables for pre-retirement participants.

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, 2005 through June 30, 2010.

Long-term expected rates of return – The long-term rates of return on pension plan investments were determined using a building-block method in which best estimate ranges of expected 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 percentages and by adding expected inflation. Best estimates of the long-term arithmetic real rates of return for each major asset class included in the plan's targeted allocation are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	27.5%	7.0%
International Equity	27.5%	7.7%
Fixed Income	15.0%	2.7%
Real Estate	10.0%	5.6%
Private Equity	10.0%	9.4%
Hedge Funds	10.0%	4.7%
Total	100.0%	

Discount rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee, employer, and State contributions will continue to follow the current funding policy. 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 plan employees. Therefore, the long-term expected rates of return on pension plan investments were applied to all periods of projected benefit

payments to determine the total pension liability. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate – The following table presents the Authority's proportionate share of the net pension liability calculated using the current discount rate of 7.5% as well as 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:

	SBA Proportionate Share of Net Pension Liability		
	1% Decrease 6.5%	Discount Rate 7.5%	1% Increase 8.5%
SBA's proportionate share	$ 568,913	$ 438,835	$ 327,143

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued STRS financial report.

13. Postemployment Benefits Other Than Pensions

Plan description

The Authority participates in the West Virginia Retiree Health Benefit Trust Fund (the "Plan"), a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the West Virginia Public Employee Insurance Agency (WVPEIA). The 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 provisions to the WVPEIA board of trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Public Employees Insurance Agency, 601 57th Street, S.E., Suite 2, Charleston, West Virginia, 25304-2345, or by calling 1-888-680-7342.

Funding policy

The Code requires the Plan to bill the participating employers 100% of the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the Plan over a period not to exceed thirty years. Plan employers are billed per active health policy per month.

The Authority's ARC was $34,800, $30,388, and $21,174, and the Authority has paid premiums of $15,648, $15,088, and $15,486, which represent 44.97%, 49.65% and 71.40% of the ARC, for the years ending June 30, 2016, 2015, and 2014, respectively. As of June 30, 2016 and 2015, the Authority has recorded a liability of $269,042 and $249,890, respectively, for post-employment benefits other than pensions.

14. New Accounting Pronouncements

The GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, to improve financial reporting surrounding post-employment benefits or OPEB. This statement replaces the requirements of Statement No. 45 and No. 57. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The Authority has not yet determined the effect, if any, these statements will have on its financial statements.

Required Supplementary Information

School Building Authority of West Virginia
Schedule of Revenues, Expenditures and Changes in Fund Budget and Actual (Budgetary Basis) - General Fund
Year Ended June 30, 2016

	Budgeted Amounts		
	Original	**Final**	**Actual**
Revenues:			
Intergovernmental	$ -	$ -	$ 75,602
Expenditures:			
Administrative	1,370,402	1,370,402	1,251,337
Deficiency of revenues under expenditures	(1,370,402)	(1,370,402)	(1,251,337)
Other financing sources:			
Transfers - internal activities	1,370,402	1,370,402	1,200,000
Deficiency of revenues and other transfers in under expenditures and other transfers out	$ -	$ -	$ (51,337)

See accompanying notes.

School Building Authority of West Virginia
Schedule of Revenues, Expenditures and Changes in Fund Budget and Actual (Budgetary Basis) - Debt Service Fund
Year Ended June 30, 2016

	Budgeted Amounts		
	Original	**Final**	**Actual**
Revenues:			
Intergovernmental	$ 60,423,270	$ 60,423,270	$ 60,415,047
Interest income, net of arbitrage rebate	1,370,402	1,370,402	2,298,516
Increase in fair value of investments	-	-	1,330,412
	61,793,672	61,793,672	64,043,975
Expenditures:			
Debt service	60,423,270	60,423,270	39,643,960
Excess of revenues over expenditures	1,370,402	1,370,402	24,400,015
Other financing uses:			
Transfers	(1,370,402)	(1,370,402)	(10,180,355)
Excess of revenues over expenditures and transfers out	$ -	$ -	$ 14,219,660

See accompanying notes.

Note To Required Budgetary Supplementary Information

1. Reconciliation Of Budget Information

A reconciliation of the excess of revenues and transfers in over expenditures and transfers out for the year ending June 30, 2016, on the budgetary basis to the GAAP basis follows:

	General Fund	Debt Service
Excess (deficiency) of revenues and transfers in over (under) expenditures and transfers out - budgetary basis	$ (51,337)	$ 12,889,248
Unbudgeted funds	-	1,330,412
Excess of revenues and transfers in over expenditures and transfers out - GAAP basis	$ (51,337)	$ 14,219,660

The Authority's Special Revenue Fund is not subject to the legislative budget process of the State and is considered an unbudgeted fund.

School Building Authority of West Virginia
Schedule of Proportionate Share of the Net Pension Liability - STRS
Last Two Fiscal Years

	2016	2015
SBA's Proportionate (percentage) of the net pension liability	0.0127%	0.0174%
SBA's Proportionate share of the net pension liability	$ 438,835	$ 600,212
States proportionate share of the net pension liability associated with SBA	1,001,301	1,356,118
Total	$ 1,440,136	$ 1,956,330
SBA's Covered-employee payroll	$ 622,975	$ 754,105
SBA's Proportionate share of the net pension's liability as a percentage of its covered-employee payroll	70.44%	79.59%
Plan fiduciary net position as a percentage of the total pension liability *	66.25%	65.95%

* This is the same percentage for all participant employers in the STRS plan.

1. Trend Information Presented

The accompanying schedule of the Authority's proportionate share of the net pension liability is 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. Changes in Assumptions

An experience study, which was based on the years 2006 through 2010, was completed prior to the 2015 actuarial valuation. As a result, the interest rate assumption used in the actuarial valuation changed from 2.2% during the 2014 valuation period to 1.9% in the 2015 valuation period.

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

School Building Authority of West Virginia
Schedule of Contributions - STRS
Last Four Fiscal Years

	2016	2015	2014	2013
Contractually required contribution	$ 58,728	$ 57,585	$ 80,141	$ 76,298
Contributions in relation to the contractually required contribution	(58,728)	(57,585)	(80,141)	(76,298)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
SBA's Covered-employee payroll	$ 642,750	$ 622,975	$ 754,105	$ 721,819
Contributions as a percentage of covered-employee payroll	9.14%	9.24%	10.63%	10.57%

1. Trend Information Presented

The accompanying schedule of the Authority's contributions to STRS is 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. Changes in Assumptions

An experience study, which was based on the years 2006 through 2010, was completed prior to the 2015 actuarial valuation. As a result, the interest rate assumption used in the actuarial valuation changed from 2.2% during the 2014 valuation period to 1.9% in the 2015 valuation period.

DIXON HUGHES GOODMAN LLP

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statements Performed In Accordance With *Government Auditing Standards*

Members
School Building Authority of West Virginia
Charleston, West Virginia

We have audited, 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, the financial statements of the governmental activities and each major fund, of the School Building Authority of West Virginia as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School Building Authority of West Virginia's basic financial statements, and have issued our report thereon dated January 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School Building Authority of West Virginia's internal control over financial reporting 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 School Building Authority of West Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the School Building Authority of West Virginia'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 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 School Building Authority of West Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

DIXON HUGHES GOODMAN LLP

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 School Building Authority of West Virginia's internal control or on compliance. This report is an integral part of an audit performed in accordance with Governmental Auditing Standards in considering the School Building Authority of West Virginia's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

[Insert Firm Signature]

Charleston, West Virginia
January 11, 2017

Other Financial Information

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
FINANCIAL ACCOUNTING AND REPORTING SECTION

FORM 7

GAAP REPORTING FORM - DEPOSITS DISCLOSURE

Audited Agency **School Building Authority of West Virginia**

Per GASB Statement 40 the Agency must disclose its deposit policy. The deposit policy must be formally adopted through legal or contractual provisions. Disclosure of any statutory policies are also required. Please provide in the space below the Agency's dep

See Note 4 to financial statements.

	Carrying Amount	Restricted Carrying Amount	Total Carrying Amount	Bank Balance	FDIC Insured Amount	Collateralized Amount	2 Amount Collateralized with securities held by the pledging financial institution's trust department or agent in the government's name	3A Amount Uninsured and Uncollateralized	3B Collateralized with securities held by the pledging financial institution but not in the name of the depositor	3C Collateralized with securities held by the pledging financial institution trust department or agency but not in the name of the depositor	Foreign Currency Risk: Currency Type	Maturity	Fair Value
Balances as of June 30, 2014													
Cash with Treasurer													
Per WVFIMS Opening Balance Report	$ 118,962		$ 118,962										
Cash with Municipal Bond Commission			0										
Cash on Hand			0										
Cash in Transit to WVFIMS			0										
Cash with Board of Trustees			0										
Cash in Outside Bank Accounts			0										
Cash in Escrow			0										
Certificates of Deposits (Non-Negotiable)			0										
Other: _____			0										
Total	$ 118,962	$ -	$ 118,962	$ -	$ -	$ -	$ -	$ -	$ -	$ -			$ -

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
FINANCIAL ACCOUNTING AND REPORTING SECTION

GAAP REPORTING FORM - INVESTMENTS DISCLOSURE

FORM 8

Audited Agency **School Building Authority of West Virginia**

Per GASB Statement 40 the Agency must disclose its investment policy. The investment policy must be formally adopted through legal or contractual provisions. Disclosure of any statutory policies are also required. Please provide in the space below the Agency's investment policy.

See Note 4 to financial statements.

	Reported Amount Unrestricted	Reported Amount Restricted	Custodial Credit Risk (Based on reported amounts) Category 1	Category 2	Category 3	Reported Amount**	Fair Value	Credit Ratings Standard & Poor's	Moody's	Fitch	Interest Rate Risk - Segmented Time Distribution, Investment Maturities (in years) Less than 1	1 - 5	6 -10	More than 10	Foreign Currency Risk Currency Type	Maturity	Fair Value
Investments with Investment Mgmt Board (IMB)																	
Per WVFIMS Opening Balance Report																	
Investment Earnings not Posted to WVFIMS As of 6/30/14																	
Investments with Board of Treasury Investments (BTI)																	
Per Opening Balance Report	5,286,458					5,286,458 (A)	5,286,458										
Investment Earnings not Posted to WVFIMS As of 6/30/14																	
Investments Outside IMB:																	
U.S. Treasury Obligations						( )											
U.S. Government Agencies	70,922,167		70,922,167			70,922,167 (F)	70,922,167	AA+	Aaa	AAA	23,084,910		24,326,178	23,511,079			
Other Government Bonds						( )											
Corporate Bonds						( )											
Corporate Stocks						( )											
Mutual Bond Funds						( )											
Mutual Stock Funds																	
Mutual Money Market Funds	154,046,654		154,046,654			154,046,654 (F)	154,046,654	AAAm	Aaa	AAA	154,046,654						
Commercial Paper						( )											
Bank Investment Contract																	
Guaranteed Investment Contract						( )											
Repurchase Agreements ****						( )											
State/Local Gov't Securities						( )											
Certificates of Deposit (Negotiable)						( )											
Other Investments (Certificate of Deposit):						( )											
						( )											
						( )											
Total	$ 230,255,279	$ -	$ 224,968,821	$ -	$ -	$ 230,255,279	$ 230,255,279				###########	$ -	$ 24,326,178	$ 23,511,079			$ -

****** MUST COMPLETE THE BELOW INFORMATION IF REPURCHASE AGREEMENTS WERE IDENTIFIED ABOVE:**

Collateral Description On The Repurchase Agreements	Fair Market Value of Collateral	Credit Rating Moody's	S&P

**NOTE: THE REPORTED AMOUNTS SHOULD BE IDENTIFIED AS EITHER AMORTIZED COST (A) OR FAIR VALUE (F).

STATE OF WEST VIRGINIA

FORM 8A

DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
FINANCIAL ACCOUNTING AND REPORTING SECTION

GAAP REPORTING FORM - DEPOSITS AND INVESTMENTS RECONCILIATION

Audited Agency **School Building Authority of West Virginia**

Reconciliation of cash, cash equivalents and investments as reported in the financial statements to the amounts disclosed in the footnote:

Deposits:	
Cash and cash equivalents as reported on balance sheet	$ 159,452,074
Less: cash equivalents disclosed as investments	(159,333,112)
Add: restricted cash and cash equivalents disclosed as deposits	-
Other (describe)	-
Carrying amount of deposits as disclosed on Form 7	$ 118,962
Investments:	
Investments as reported on balance sheet	$ 70,922,167
Add: restricted investments disclosed as investments	-
Add: cash equivalents disclosed as investments	159,333,112
Other (describe)	
Reported amount of investments as disclosed on Form 8	$ 230,255,279

FORM 15

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
FINANCIAL ACCOUNTING AND REPORTING SECTION

GAAP REPORTING FORM - TRANSFERS IN/OUT

Audited Agency **School Building Authority of West Virginia**

Indicate amounts transferred from/to your agency as of June 30, 2016

1 WVFIMS Doc. ID	2 Agency Transferring From	3 WVFIMS FUND	4 Agency Transferring To	5 WVFIMS FUND	6 Amount
Various	Department of Tax & Revenue	402	School Building Authority of WV	317	$ 23,423,270
Various	Department of Tax & Revenue	402	School Building Authority of WV	3951	21,216,996
Various	Department of Tax & Revenue	402	School Building Authority of WV	3966	3,000,000
Various	W.V. Lottery Commission	7205	School Building Authority of WV	3514	18,993,777
Various	W.V. Lottery Commission	7203	School Building Authority of WV	3963	18,000,000
			Total		$ 84,634,043

*Do not include IGT's, Reimbursements or Expense to Expense transactions

Explain Transfers In/Out amounts greater than or equal to $1,000,000.
All transfers received based on legislative action