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**School Building Authority of West Virginia**  
**(A Component Unit of the State of West Virginia)**

Financial Statements,  
Required Supplementary Information,  
and Supplementary Information

Year Ended June 30, 2017  
with Independent Auditor's Reports

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA **DRAFT**

YEAR ENDED JUNE 30, 2017

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## Independent Auditor's Report

### **Members School Building Authority of 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 (Authority), a component unit of the State of West Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority, as of June 30, 2017, 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.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information on pages i through vi and 25 through 29 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 supplementary information on pages 30 through 33 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary 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 supplementary financial information on pages 30 through 33 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 DATE XX 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Pittsburgh, Pennsylvania  
DATE XX, 2017

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

### **Introduction**

Our discussion and analysis of the School Building Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction the Authority's financial statements which begin on page 1.

### **Financial Highlights**

- The Authority's total fund balance increased by \$27.2 million as a result of this year's operations. The fund balance of the Debt Service Fund increased by \$10.5 million or by 8.52 percent while the fund balance of the Capital Projects Fund increased by \$16.5 million, or approximately 17.51% percent. The fund balance of the General Fund increased by \$118,985 from the prior year.
- During the year, the Authority had revenues from intergovernmental allocations and interest income that were \$30.1 million in excess of the \$66.5 million that was spent on administrative expenses, capital project payments and interest on long term debt. Last year revenues exceeded expenditures by \$18.4 million.
- Intergovernmental revenues increased in the current year to \$96.4 million. Investment return decreased by \$3.8 million due to higher interest rates that effect the market value of the investment for the in the long-term escrow accounts that will be used to pay the Series 2009A, 2009B and 2010 bonds.
- Expenses in the Authority's Governmental Fund Types activities decreased by \$3.3 million, or 3.40 percent to \$94.3 million during the year. Payments under capital grants decreased by \$5.1 million while debt service on the long-term debt increased by \$1.8 million. Personal services and other administrative expenses increased by \$15,319 from the prior year.

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

### Presentation of Condensed Financial Information

Statement of Net Position (in thousands)

	2017	2016	Change	
			Amount	Percent
<b>Assets</b>				
Cash and Cash Equivalents	\$ 180,124	\$ 159,452	\$20,672	12.96%
Investments	73,756	70,922	2,834	4.00%
Accrued Interest Receivable	370	283	87	30.74%
Prepaid Insurance	129	155	-26	-16.77%
Capital Assets, net Assets	702	734	-32	-4.36%
<b>Total Assets</b>	<b>255,081</b>	<b>231,546</b>	<b>23,535</b>	<b>10.16%</b>
<b>Deferred outflows of resources:</b>				
Deferred loss on refunding's	7,888	8,842	-954	-10.79%
Deferred outflows related to pensions	216	85	131	154.12%
<b>Total Assets and Deferred Outflows</b>	<b>\$263,185</b>	<b>\$240,473</b>	<b>22,712</b>	<b>9.44%</b>
<b>Current Liabilities</b>				
Net pension liability	\$ 9,211	\$ 12,807	-3,596	-28.08%
Long-term bonds payable	622	439	183	41.69%
Long-term bonds payable	466,586	470,477	-3,891	-0.83%
<b>Total Liabilities</b>	<b>476,419</b>	<b>483,723</b>	<b>-7,304</b>	<b>-1.51%</b>
<b>Deferred inflows of resources:</b>				
Deferred inflows related to pensions	46	81	-35	-43.21%
<b>Total liabilities and deferred inflow of resources</b>	<b>\$ 476,465</b>	<b>\$ 483,804</b>	<b>-7,339</b>	<b>-1.52%</b>
<b>Net position:</b>				
Net investment in capital assets	703	734	-31	-4.22%
Restricted for capital projects	111,006	94,468	16,538	17.51%
Unrestricted	(324,989)	(338,533)	13,544	-4.00%
<b>Net (deficit) position</b>	<b>(213,280)</b>	<b>(243,331)</b>	<b>30,051</b>	<b>-12.35%</b>

Statement of changes in Net Position:

<b>Revenues</b>				
Intergovernmental	\$ 96,404	\$ 84,708	11,696	13.81%
Interest Income	2,179	2,673	-494	-18.48%
Change in fair value of investments	(2,069)	1,330	-3,399	-255.56%
	<u>96,514</u>	<u>88,711</u>	<u>7,803</u>	<u>8.80%</u>
<b>Expenses</b>				
Capital Grants	51,658	56,755	-5,097	-8.98%
Interest	13,487	12,503	984	7.87%
Other	1,318	1,008	310	30.75%
	<u>66,463</u>	<u>70,266</u>	<u>-3,803</u>	<u>-5.41%</u>
<b>Change in net position</b>	<b>30,051</b>	<b>18,445</b>	<b>11,606</b>	<b>62.92%</b>
<b>End of year net position</b>	<b>\$ (213,280)</b>	<b>\$ (243,331)</b>	<b>30,051</b>	<b>-12.35%</b>

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

### **The Authority as a Whole**

The Authority's combined net assets increased by \$30.0 million, from a deficit of \$243.3 million to a deficit of \$213.3 million. Net assets increased by \$18.4 million in the prior year.

Unrestricted net assets, the portion of the net assets 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 \$338.5 million at June 30, 2016 to a deficit of \$325.0 million at the end of this fiscal year.

The deficit in unrestricted governmental net assets 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 increased by \$3.4 million during the year. The amount of intergovernmental is anticipated be \$93.2 million in future fiscal years.

The Authority has entered into an agreement with the West Virginia Department of Homeland Security to administer disaster relief funds received from the Federal Emergency Management Agency to demolish and replace five school that were damaged in June 2016. The Authority received \$8.3 million in the current fiscal year under this agreement. There was no expenditure of funds in the current fiscal year. The Authority anticipates receiving an additional \$263.1 million in future years to administer this program.

### **The Authority's Funds**

During the year ended June 30, 2017, the Authority's governmental funds reported a combined fund balance of \$245.1 million, which is a \$27.2million increase, or 12.48 percent more than last years balance of \$217.9 million.

The Authority spent \$51.7 million this year on school construction projects. Special revenue balances at the beginning of the year include prior year allocations to finance these projects.

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

Although these construction expenditures reduced the available fund balance, additional allocations from the State of West Virginia for school construction of \$27.6 million, a transfer from the West Virginia Department of Homeland in the amount of \$8.3 million, the net proceeds of \$25.0 million from the sale of the series 2016B bonds, net investment income of \$514,705 and the transfers from other funds of \$6.8 million resulted in the fund balance being \$111.0 million at June 30, 2017.

The fund balance in the of the Debt Service fund increased by \$10.6 million this year as a result of scheduled principal payments. The ending fund balance for the debt service fund was \$134.2 million at June 30, 2017 which is equal to the amount that is required to be maintained by the Authority as debt service reserve funds, bond sinking funds and current year debt service funds 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. In the current fiscal year, the Authority received its operational funds from interest income from trust fund investments as prescribed by the West Virginia Code at that time. In the 2017 legislative session, a bill was passed and was signed by the governor that allows the Authority to receive its future operating funds from the annual school construction fund allocation of \$27.2 million.

The actual charges to operations (expenditures) were \$103,747 below the final budget amounts. Resources available for operations (Debt Service Fund Transfers) were \$95,402 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 for the Series 2007 bonds from the General Revenue Fund, the Regular Lottery Fund (Series 2012 bonds, Series 2013 bonds, Series 2014 bonds, Series 2016A bonds and Series 2016B bonds) and the Excess Lottery Fund (Series 2008, Series 2009A bonds, Series 2009B bonds, Series 2010 A bonds, Series 2010B bonds and Series 2015 bonds).

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

### **Debt Administration**

At year-end, the Authority had \$466.6 million in bonds outstanding compared to \$470.5 million at June 30, 2016, a decrease of 0.83 percent. This decrease of \$3.9 million was caused by principal bond repayments in excess of new bonds issued and the amortization of unamortized premiums and discounts associated with bond issued in prior years.

The Authority maintains two primary categories of debt both of which carry strong bond ratings with national rating agencies. A portion of the Authority's debt is secured by annual Legislative appropriations from the State's general revenue fund. As of June 30, 2017, those bonds maintained ratings of Aa2 from Moody's, A+ from Standard and Poor's and AA- from Fitch. The remainder of Authority's debt is secured by revenue allocations from the West Virginia Lottery Fund. All lottery revenue bonds issued by the Authority have been assigned debt rating based on debt service coverage levels and other factors that the rating agencies deem appropriate. As of June 30, 2017, the Authority's revenue bonds maintained ratings of A1 from Moody's, AAA from Standards and Poor's and A+ from Fitch.

### **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, 2018.

The Authority has received approval in the state of West Virginia budget bill that includes a \$60.3 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 will receive a \$32.2 million allocation for the pay-as-you-go program for the year ending June 30, 2017.

**SCHOOL BUILDING AUTHORITY OF  
WEST VIRGINIA**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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.

**SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA**  
**GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION**

JUNE 30, 2017

	General Fund	Special Revenue Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>						
Cash and cash equivalents	\$ 234,507	\$ 119,842,338	\$ 60,047,183	\$ 180,124,028	\$ -	\$ 180,124,028
Investments	-	-	73,756,165	73,756,165	-	73,756,165
Accrued interest receivable	-	-	369,975	369,975	-	369,975
Prepaid insurance	-	-	-	-	128,539	128,539
Capital assets, net	-	-	-	-	702,459	702,459
<b>Total Assets</b>	<b>234,507</b>	<b>119,842,338</b>	<b>134,173,323</b>	<b>254,250,168</b>	<b>830,998</b>	<b>255,081,166</b>
<b>Deferred Outflows of Resources</b>						
Deferred loss on bond refundings	-	-	-	-	7,887,644	7,887,644
Deferred outflows related to pension	-	-	-	-	216,401	216,401
<b>Total Assets and Deferred Inflows</b>	<b>234,507</b>	<b>119,842,338</b>	<b>134,173,323</b>	<b>254,250,168</b>	<b>8,935,043</b>	<b>263,185,211</b>
<b>Liabilities</b>						
Accounts payable	3,975	-	-	3,975	-	3,975
Capital grants payable	-	8,835,917	-	8,835,917	-	8,835,917
Compensation payable	38,707	-	-	38,707	-	38,707
Compensated absences	-	-	-	-	51,869	51,869
Other postemployment benefits payable	280,413	-	-	280,413	-	280,413
Net pension liability	-	-	-	-	622,572	622,572
Long-term debt obligations:						
Due within one year	-	-	-	-	29,620,000	29,620,000
Due after one year	-	-	-	-	436,966,249	436,966,249
<b>Total Liabilities</b>	<b>323,095</b>	<b>8,835,917</b>	<b>-</b>	<b>9,159,012</b>	<b>467,260,690</b>	<b>476,419,702</b>
<b>Deferred Inflows of Resources</b>						
Deferred inflows related to pension	-	-	-	-	45,808	45,808
<b>Total Liabilities and Deferred Inflows</b>	<b>323,095</b>	<b>8,835,917</b>	<b>-</b>	<b>9,159,012</b>	<b>467,306,498</b>	<b>476,465,510</b>
<b>Fund Balance</b>						
Restricted - capital projects	-	111,006,421	-	111,006,421	(111,006,421)	-
Restricted - debt service	-	-	134,173,323	134,173,323	(134,173,323)	-
Unassigned	(88,588)	-	-	(88,588)	88,588	-
<b>Total Fund Balance</b>	<b>\$ (88,588)</b>	<b>\$ 111,006,421</b>	<b>\$ 134,173,323</b>	<b>\$ 245,091,156</b>	<b>(245,091,156)</b>	<b>-</b>
<b>Total Liabilities and Fund Balance</b>	<b>234,507</b>	<b>119,842,338</b>	<b>134,173,323</b>	<b>254,250,168</b>		
<b>Net Position</b>						
Net investment in capital assets					702,459	702,459
Restricted for capital projects					111,006,421	111,006,421
Unrestricted					(324,989,179)	(324,989,179)
<b>Total Net Position</b>					<b>\$ (213,280,299)</b>	<b>(213,280,299)</b>

See accompanying notes to financial statements.

**SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA**

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STATEMENT OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE/  
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	General Fund	Special Revenue Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
<b>Revenues:</b>						
Intergovernmental	\$ 110,641	\$ 35,879,586	\$ 60,413,978	\$ 96,404,205	\$ -	\$ 96,404,205
Interest income, net of arbitrage rebate	-	514,705	1,664,651	2,179,356	-	2,179,356
Increase (decrease) in fair value of investments	-	-	(2,069,022)	(2,069,022)	-	(2,069,022)
<b>Total revenues</b>	<b>110,641</b>	<b>36,394,291</b>	<b>60,009,607</b>	<b>96,514,539</b>	<b>-</b>	<b>96,514,539</b>
<b>Expenditures:</b>						
Capital grants	-	51,658,138	-	51,658,138	-	51,658,138
Debt service:						
Principal	-	-	27,235,000	27,235,000	(27,235,000)	-
Interest	-	-	14,169,350	14,169,350	(682,759)	13,486,591
Personal services	1,082,425	-	-	1,082,425	20,771	1,103,196
Other administrative	184,230	-	-	184,230	31,444	215,674
<b>Total expenditures</b>	<b>1,266,655</b>	<b>51,658,138</b>	<b>41,404,350</b>	<b>94,329,143</b>	<b>(27,865,544)</b>	<b>66,463,599</b>
<b>Excess (Deficiency) of Revenue over Expenditures</b>	<b>(1,156,014)</b>	<b>(15,263,847)</b>	<b>18,605,257</b>	<b>2,185,396</b>	<b>(2,185,396)</b>	<b>-</b>
<b>Other Financing Sources (Uses):</b>						
Transfers - internal activities	1,275,000	6,794,114	(8,069,114)	-	-	-
Proceeds from issuance of long-term debt	-	25,007,896	-	25,007,896	(25,007,896)	-
<b>Total financing sources (uses)</b>	<b>1,275,000</b>	<b>31,802,010</b>	<b>(8,069,114)</b>	<b>25,007,896</b>	<b>(25,007,896)</b>	<b>-</b>
<b>Excess (Deficiency) of Revenue and Transfers In Over Expenditures and Transfers Out</b>	<b>118,986</b>	<b>16,538,163</b>	<b>10,536,143</b>	<b>27,193,292</b>	<b>(27,193,292)</b>	<b>-</b>
<b>Change in Net Position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,050,940</b>	<b>30,050,940</b>
<b>Fund Balance/Net Position:</b>						
Beginning of year	(207,574)	94,468,258	123,637,180	217,897,864	(461,229,103)	(243,331,239)
End of year	<u>\$ (88,588)</u>	<u>\$ 111,006,421</u>	<u>\$ 134,173,323</u>	<u>\$ 245,091,156</u>	<u>\$ (458,371,455)</u>	<u>\$ (213,280,299)</u>

See accompanying notes to financial statements.

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA **DRAFT**

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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### **1. Reporting Entity**

The School Building Authority of West Virginia (Authority) was created under the provisions of Chapter 18, Article 90 (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 utilize more efficiently 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 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 accounting principles generally accepted in the United States of America (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.

### **2. Summary of Significant Accounting Policies**

#### Basis of Presentation

The financial statements of the Authority have been prepared in conformity with GAAP as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority's significant accounting policies are described below.

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA **DRAFT**

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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### 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, 2017, which is primarily driven by future obligations related to long-term debt as disclosed in Note 8. 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, 2017. 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.

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# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA **DRAFT**

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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The Authority reports the following major governmental funds:

- *General Fund* - This fund is used to account for all financial resources, except those accounted for in another fund. At June 30, 2017, the General Fund had a deficit, primarily due to management not electing to transfer funds to cover certain 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.

### 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 BTI's West Virginia Money Market Pool and all other money market funds are carried at amortized cost, which approximates fair value.

### 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.

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA **DRAFT**

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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### 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. 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 STRS, such information has been determined on the same basis as they are reported by STRS. The actuarial cost method used was individual entry age normal with level percent 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 the West Virginia Code, for the period ending June 30, 2017, the Authority has transferred \$8,069,114 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

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# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA **DRAFT**

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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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 (five to 40 years).

### Fund Balance

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, restricted for capital projects, or as unrestricted in accordance with GAAP. Restrictions of net position are the result of constraints placed on the use of net position, which have been imposed through debt covenants, by law through enabling legislation, and through grant agreements. 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

A deferred outflow 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. In addition, employer contributions to 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.

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA **DRAFT**

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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### 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, 2017, deferred inflows were composed of 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

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 (Code), prescribes restrictions applicable to the Authority as issuer of revenue bonds, including 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, 2017, management has determined that there is no obligation to the federal government for arbitrage.

### Adopted Pronouncements

Standards requiring adoption in 2017 include GASB Statement No. 74 (OPEB Reporting), No. 77 (Tax Abatement), No. 80 (Blending of Component Units), No. 81 (Split-interest Agreements), and No. 86 (Debt Extinguishment). These standards were implemented with no significant impact to the Authority's financial statements

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA **DRAFT**

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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### Pending Pronouncements

GASB has issued statements that will become effective in future years, including Statement 75 (OPEB Employer), 80 (Component Units), 81 (Split-Interest Agreements), 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), 85 (Blending, Goodwill, Fair Value, OPEB), 86 (Certain Debt Extinguishment Issues), and 87 (Leases). Management has not yet determined the impact of these statements on the financial statements.

### **3. 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	\$ 245,091,156
Prepaid insurance used in governmental activities in not a financial resource and, therefore, is not reported in the governmental funds balance sheet.	128,539
Capital assets used in governmental activities are not a financial resource and, therefore, are not reported in the governmental funds balance sheet.	702,459
Deferred losses on bond refundings reported in governmental activities are not a financial resource and, therefore, are not reported in the governmental funds balance sheet.	7,887,644
Deferred inflows of resources are not financial resources and, therefore, are not reported in the governmental funds balance sheet.	(45,808)
Deferred outflows of resources are not financial resources and, therefore, are not reported in the governmental funds balance sheet.	216,401
Net pension liability is not due and payable in the current period and, therefore, is not reported in the funds.	(622,572)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	(51,869)
Long-term debt obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	<u>(466,586,249)</u>
Net position (deficit) of governmental activities	<u>\$ (213,280,299)</u>

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA **DRAFT**

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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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:

Excess (Deficiency) of revenues and transfers in under expenditures and transfers out - governmental funds	\$ 27,193,292
Changes in the net pension liability and related deferred outflows and inflows of resources do not affect current financial resources and, therefore, are not reflected in the governmental funds	(17,202)
Expenses associated with compensated absences that will not be paid with current financial resources and, therefore, are not reported in governmental funds.	(3,569)
Amortization of deferred charges associated with long-term debt obligations does not affect current financial resources and, therefore, is not reported in governmental funds.	682,759
Depreciation expense related to capital assets is not reported in the governmental funds because it does not affect current financial resources.	(31,444)
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 financial statements.	27,235,000
Proceeds from issuance of long-term debt are reported as an increase in fund balance in the government funds, but do not result in a change in net position in the government-wide statement of activities.	<u>(25,007,896)</u>
Change in net position - statement of activities	<u>\$ 30,050,940</u>

#### 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

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA DRAFT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Virginia Code, policies set by BTI and by provisions of bond indentures and trust agreements when applicable. Certain of the Authority's cash balances are invested by BTI in BTI's West Virginia Money Market Pool, which are carried at amortized cost in accordance with the criteria established in GASB Statement No. 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. BTI does not place limitations or restrictions on participant withdrawals from the pool, such as redemption notice periods, maximum transaction amounts, and does not have any authority to impose liquidity fees or redemption gates. As of June 30, 2017, the Authority had \$3,676,150 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 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.wvbt.com](http://www.wvbt.com).

### ***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's investments are subject to interest rate risk. As of June 30, 2017, the Authority had the following investment and maturities:

Investment Type	Fair Value	Less Than One Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
WV Money Market Pool	\$ 3,676,150	\$ 3,676,150	\$ -	\$ -	\$ -
Federal agency bonds	73,756,165	-	-	73,756,165	-
Money market funds	167,880,827	167,880,827	-	-	-
	<u>\$ 245,313,142</u>	<u>\$ 171,556,977</u>	<u>\$ -</u>	<u>\$ 73,756,165</u>	<u>\$ -</u>

### ***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the Authority's investment in a single corporate issuer.

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA DRAFT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

As of June 30, 2017, the Authority had investment balances with the following issuers, which were greater than or equal to 5% of the total investment balance:

Type	Issuer	Percent of Investments
Federal agency bonds	Federal Farm Credit Banks	16.9%
Federal agency bonds	Federal Home Loan Banks	13.6%

### ***Credit Risk***

#### West Virginia Money Market Pool

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The West Virginia 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.

#### 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
Federal agency bonds	AAA	Aaa	AA+	\$ 73,756,165
Money market funds	AAAmmf	Aaa-mf	AAAm	167,880,827
				\$ 241,636,992

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.

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA **DRAFT**

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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### ***Custodial Credit Risk***

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2017, the Authority held no securities that were subject to custodial credit risk.

### ***Foreign Currency Credit Risk***

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	\$ 3,676,150
Total other investments	241,636,992
Deposits with the West Virginia Treasury	<u>8,567,051</u>
	<u>\$ 253,880,193</u>

As reported in the Governmental Funds:

Balance sheet/statement of net position:	
Investments	\$ 73,756,165
Cash and cash equivalents	<u>180,124,028</u>
	<u>\$ 253,880,193</u>

## **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

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA DRAFT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

measurement. The Authority categorizes fair value measurements within the fair value hierarchy established by GAAP 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, 2017.

Investment Type	Level 1	Level 2	Level 3	Total
Federal agency bonds	\$ -	\$ 73,756,165	\$ -	\$ 73,756,165

These Level 2 securities are priced by third party pricing services using observable market data.

## 6. Capital Assets

A summary of capital assets at June 30, 2017 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Buildings	\$ 1,022,782	\$ -	\$ -	\$ 1,022,782
Land improvements	21,995	-	-	21,995
Less accumulated depreciation	(310,874)	(31,444)	-	(342,318)
Total capital assets, net	<u>\$ 733,903</u>	<u>\$ (31,444)</u>	<u>\$ -</u>	<u>\$ 702,459</u>

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA DRAFT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

### 7. Long-Term Debt

The Authority issued revenue bonds to fund grants to finance capital improvements to public schools located in the State. 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, 2017, are as follows:

	Original Issue Amount	Outstanding at June 30, 2017
2007A Capital Improvement Revenue Refunding Bonds, 3.70% to 5.00%, maturing through July 2022.	\$ 185,980,000	\$ 91,040,000
2008 excess Lottery Revenue Bonds, 3.00% to 5.00%, maturing through July 2028.	102,145,000	9,335,000
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 June 2030.	25,000,000	21,275,000
2012A Lottery Capital Improvement Revenue Bonds, 3.00% to 5.00%, maturing through July 2027.	25,575,000	22,515,000
2013A Lottery Capital Improvement Revenue Bonds, 3.00% to 5.00%, maturing through July 2028.	24,425,000	21,730,000
2014A Lottery Capital Improvement Revenue Bonds, 3.00% to 5.00%, maturing through July 2029.	26,055,000	23,515,000
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 2031.	21,340,000	21,340,000
2016B Lottery Capital Improvement Revenue Bonds, 3.00% to 5.00%, maturing through July 2032.	21,255,000	21,255,000
Total revenue bonds payable	\$ 645,895,000	\$ 446,125,000
Total revenue bonds payable		\$ 446,125,000
Unamortized discount		(10,348,001)
Unamortized premium		30,809,250
Portion of bonds payable due within one year		(29,620,000)
		\$ 436,966,249

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA DRAFT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

	Beginning Balance	Additions	Reductions	Adjustments	Ending Balance	Due Within One Year
Bonds payable:						
2007A bonds	\$ 109,075,000	\$ -	\$ 18,035,000	\$ -	\$ 91,040,000	\$ 18,935,000
2008A bonds	13,690,000	-	4,355,000	-	9,335,000	4,560,000
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	21,870,000	-	595,000	-	21,275,000	615,000
2012A bonds	24,075,000	-	1,560,000	-	22,515,000	1,625,000
2013A bonds	23,095,000	-	1,365,000	-	21,730,000	1,410,000
2014A bonds	24,840,000	-	1,325,000	-	23,515,000	1,365,000
2015A bonds	63,640,000	-	-	-	63,640,000	85,000
2016A bonds	21,340,000	-	-	-	21,340,000	1,025,000
2016B bonds	-	21,255,000	-	-	21,255,000	-
	<u>\$ 452,105,000</u>	<u>\$ 21,255,000</u>	<u>\$ 27,235,000</u>	<u>\$ -</u>	<u>\$ 446,125,000</u>	<u>\$ 29,620,000</u>

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, 2017, the amount of Department of Education and Lottery revenue appropriated to pay the debt service on these bonds was \$41,421,520, while the required debt service was \$27,235,000 for principal and \$14,169,350 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
2018	\$ 29,620,000	\$ 17,025,283	\$ 46,645,283
2019	32,020,000	16,007,139	48,027,139
2020	33,510,000	11,291,833	44,801,833
2021	35,075,000	9,741,683	44,816,683
2022	21,365,000	8,013,008	29,378,008
2023-2027	232,120,000	26,497,259	258,617,259
2028-2032	60,475,000	7,235,175	67,710,175
2033	1,940,000	97,000	2,037,000
	<u>\$ 446,125,000</u>	<u>\$ 95,908,380</u>	<u>\$ 542,033,380</u>

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA **DRAFT**

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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, 2017, the Authority's estimated arbitrage rebate liability was zero.

On November 4, 2015, the Authority issued the 2015A Excess Lottery Revenue Refunding Bonds to advance refund portions of the 2008 Excess Lottery Revenue Bonds. At June 30, 2017, \$63,220,000 of bonds outstanding are considered defeased.

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 at July 1, 2016	2016	Balance at June 30, 2017
Compensation payable	\$ 36,130	\$ 2,577	\$ 38,707
Compensated absences	48,300	3,569	51,869
Net pension liability	438,835	183,737	622,572
Other postemployment benefit payable	269,042	11,371	280,413
	<u>\$ 792,307</u>	<u>\$ 201,254</u>	<u>\$ 993,561</u>

### 9. Transactions with the State of West Virginia

During the year ended June 30, 2017, the Authority received operating transfers from the State through the Department of Education of \$23,421,520 for bond debt service and \$28,217,004 for capital grants. The Authority also received from the West Virginia Lottery Commission \$18,000,000 for bond debt service and \$18,992,458 for capital grants during 2017. The Authority also received \$8,318,342 in Federal Emergency Management Agency

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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funding passed through the WV Department of Homeland Security for the construction of new schools. The Authority transferred \$655,760 of nonaligned state special revenue funds to the West Virginia Public Employees Insurance Agency (PEIA).

**10. Commitments**

At June 30, 2017, the Authority had outstanding commitments in the amount of \$117,396,751 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.

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, 2017, 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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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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 STRS, a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board (CPRB). Chapter 18, Article 7 A 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. The plan financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The financial report can be obtained by writing to CPRB, 4101 MacCorkle Avenue S.E., Charleston, West Virginia 25304. The report is also available online at [www.wvretirement.com](http://www.wvretirement.com).

*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. For all employees hired after July 1, 2015, qualification for normal retirement is age 62 with 10 years of service, or age 55 with 30 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. All members hired after July 1, 2015 may retire with the pension reduced actuarially if the member is between ages 60 and 62 with 10 years of service or between ages 55 and 62 with 30 years of service. 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. For all employees hired after July 1, 2015, this age increases to 64. 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* - 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

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA **DRAFT**

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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contributions were at the rate of 6% of total annual salary. The Authority's contribution to the Plan for the years ended June 30, 2017, 2016, and 2015 was \$59,956, \$58,728, and \$57,585, respectively, which was 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 Statement No. 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, 2017, 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, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015, rolled forward to the measurement date of June 30, 2016. 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, 2016. At June 30, 2016, the Authority's proportionate share was 0.0151%, which was an increase of 0.0024% from its proportionate share measured as of June 30, 2015.

At June 30, 2017, 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.

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA DRAFT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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	\$	622,572
State's proportionate share of the net pension liability associated with the Authority		1,185,837
	<b>\$</b>	<b>1,808,409</b>

For the year ended June 30, 2017, the Authority recognized an increase in its net pension liability of \$368,273. The Authority also recognized additional pension expense of \$110,641 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, 2017, 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	\$ 2,063	\$ -
Differences between projected and actual investment earnings on pension plan investments	51,234	-
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	78,521	45,808
Changes in assumptions	24,627	
The Authority's contributions made subsequent to the measurement date of June 30, 2016	59,956	-
	<b>\$ 216,401</b>	<b>\$ 45,808</b>

The amount of \$59,956 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 ending June 30, 2018. 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 average remaining service life of 5.96 years.

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA DRAFT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2018	\$ 20,214
2019	20,214
2020	20,214
2021	20,214
2022	20,214
Thereafter	<u>9,567</u>
	<u>\$ 110,637</u>

*Actuarial assumptions and methods* - The total pension liability in the June 30, 2015 actuarial valuation, and rolled forward to June 30, 2016, was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.0%
Salary increases	3.00 - 6.5%, average, including inflation
Investment rate of return	7.5%, with no loading for system expenses

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

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

*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.

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA DRAFT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Best estimates of the long-term geometric 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%
Core fixed income	7.5%	2.7%
High-yield fixed income	7.5%	5.5%
TIPS	0.0%	2.7%
Real estate	10.0%	7.0%
Private equity	10.0%	9.4%
Hedge funds	10.0%	4.7%
	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 would 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 what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	Authority's Proportionate Share of Net Pension Liability		
	1% Decrease	Discount Rate	1% Increase
	6.50%	7.50%	8.50%
Authority's proportionate share	\$ 787,606	\$ 622,572	\$ 481,508

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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*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 (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 (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 57<sup>th</sup> Street, S.E., Suite 2, Charleston, West Virginia, 25304-2345, or by calling 1-888-680-7342. The report is also available online at [www.peia.wv.gov](http://www.peia.wv.gov).

#### 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 No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the Plan over a period not to exceed thirty years. Plan employers are billed per active health policy per month.

The Authority's ARC was \$27,259, \$34,800, and \$30,388 and the Authority has paid premiums of \$15,888, \$15,648, and \$15,088, which represent 58.29%, 44.97%, and 49.65% of the ARC, for the years ending June 30, 2017, 2016, and 2015, respectively. As of June 30, 2017 and 2016, the Authority has recorded a liability of \$280,413 and \$269,042, respectively, for postemployment benefits other than pensions.

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**REQUIRED SUPPLEMENTARY INFORMATION**

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA

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## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL (BUDGETARY BASIS) - GENERAL FUND

YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	\$ Variance	% Variance
	Original	Final			
<b>Revenues:</b>					
Intergovernmental	\$ -	\$ -	\$ 110,641	\$ (110,641)	N/A
<b>Expenses:</b>					
Administrative	1,370,402	1,370,402	1,266,655	103,747	8.19%
<b>Excess (Deficiency) of Revenue over Expenditures</b>	<u>(1,370,402)</u>	<u>(1,370,402)</u>	<u>(1,156,014)</u>	<u>(214,388)</u>	<u>18.55%</u>
<b>Other Financing Sources (Uses):</b>					
Transfers - internal activities	1,370,402	1,370,402	1,275,000	95,402	7.48%
<b>Excess (Deficiency) of Revenue and Transfers In Over Expenditures and Transfers Out</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 118,986</u>	<u>\$ (118,986)</u>	<u>N/A</u>

See accompanying note to required supplementary information.

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA

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## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL (BUDGETARY BASIS) - DEBT SERVICE FUND

YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	\$ Variance	% Variance
	Original	Final			
<b>Revenues:</b>					
Intergovernmental	\$ 60,421,520	\$ 60,421,520	\$ 60,413,978	\$ 7,542	0.01%
Interest income, net of arbitrage rebate	1,370,402	1,370,402	1,664,651	(294,249)	-17.68%
Increase in fair value of investments	-	-	(2,069,022)	2,069,022	N/A
Total revenues	61,791,922	61,791,922	60,009,607	1,782,315	2.97%
<b>Expenses:</b>					
Debt service	60,421,520	60,421,520	41,404,350	19,017,170	45.93%
<b>Excess (Deficiency) of Revenue over Expenditures</b>	1,370,402	1,370,402	18,605,257	(17,234,855)	-92.63%
<b>Other Financing Sources (Uses):</b>					
Transfers	(1,370,402)	(1,370,402)	(8,069,114)	6,698,712	-83.02%
<b>Excess (Deficiency) of Revenue and Transfers In Over Expenditures and Transfers Out</b>	\$ -	\$ -	\$ 10,536,143	\$ (10,536,143)	N/A

See accompanying note to required supplementary information.

# SCHOOL BUILDING AUTHORITY OF WEST VIRGINIA

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30 ,2017

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### 1. Reconciliation of Budget Information

A reconciliation of the excess of revenue and transfers in over expenditures and transfers out for the year ended June 30, 2017, on the budgetary basis to the GAAP basis, is as follows:

	General Fund	Debt Service Fund
	<u>                    </u>	<u>                    </u>
Excess (deficiency) of revenues and transfers in over expenditures and transfers out - budgetary basis	\$ 8,345	\$ 12,605,165
Unbudgeted funds	<u>110,641</u>	<u>(2,069,022)</u>
 Excess of revenues and transfers in over expenditures transfers out - GAAP basis	 <u>\$ 118,986</u>	 <u>\$ 10,536,143</u>

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

YEAR ENDED JUNE 30 ,2017

	2017	2016
Authority's Proportionate (percentage) of the net pension liability	0.0151%	0.0127%
Authority's Proportionate share of the net pension liability	\$ 622,572	\$ 438,835
States proportionate share of the net pension liability associated with SBA	1,185,837	1,001,301
Total	\$ 1,808,409	\$ 1,440,136
Authority's covered employee payroll	\$ 642,750	\$ 622,975
Authority's proportionate share of the net pension's liability as a percentage of its covered employee payroll	96.86%	70.44%
Plan fiduciary net position as a percentage of the total pension liability*	61.42%	66.25%

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

#### 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.

#### Changes in Assumptions

An experience study, which was based on the years 2010 through 2015, was completed prior to the 2016 actuarial valuation. As a result, the inflation rate assumption used in the actuarial valuation changed from 1.9% during the 2015 valuation period to 3.0% in the 2016 valuation period.

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

YEAR ENDED JUNE 30, 2017

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	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 59,956	\$ 58,728	\$ 57,585	\$ 80,141	\$ 76,298
Contributions in relation to the contractually required contribution	<u>(59,956)</u>	<u>(58,728)</u>	<u>(57,585)</u>	<u>(80,141)</u>	<u>(76,298)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Authority's covered employee payroll	\$ 659,158	\$ 642,750	\$ 622,975	\$ 754,105	\$ 721,819
Contributions as a percentage of covered employee payroll	9.10%	9.14%	9.24%	10.63%	10.57%

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.

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**SUPPLEMENTARY INFORMATION**

09/14/2017

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

See Note 5 to financial statements.

Carrying Amount	Restricted Carrying Amount	Total Carrying Amount	Bank Balance	FDIC Insured Amount	Collateralized Amount	2	3A	3B	3C	Foreign Currency Risk		
						Amount Collateralized with securities held by the pledging financial institution's trust department or agent in the government's name	Amount Uninsured and Uncollateralized	Collateralized with securities held by the pledging financial institution but not in the name of the depositor	Collateralized with securities held by the pledging financial institution trust department or agency but not in the name of the depositor	Currency Type	Maturity	Fair Value
Balances as of June 30, 2017												
Cash with Treasurer												
Per wvOASIS Opening Balance Report	\$ 8,567,051	\$ 8,567,051										
Cash with Municipal Bond Commission		0										
Cash on Hand		0										
Cash in Transit to wvOASIS		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										
<b>Total</b>	<b>\$ 8,567,051</b>	<b>\$ 8,567,051</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>

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 5 to financial statements.

	Reported Amount Unrestricted	Reported Amount Restricted	Fair Value Measurement's Using					Net Asset Value	Total Reported Value	Credit Ratings			Interest Rate Risk - Segmented Time Distribution				Foreign Currency Risk		
			Level 1	Level 2	Level 3	Fair Value	Cost Value			Standard & Poor's	Moody's	Fitch	Less than 1	1 - 5	6 -10	More than 10	Currency Type	Maturity	Fair Value
Investments with Investment Mgmt Board (IMB)																			
<b>Per wvOASIS Opening Balance Report</b>																			
Investment Earnings not Posted to wvOASIS																			
As of 6/30/17																			
Investments with Board of Treasury Investments (BTI)																			
<b>Per Opening Balance Report</b>	234,507	3,441,643							3,676,150										
Investment Earnings not Posted to wvOASIS																			
As of 6/30/17																			
Outside Investments:																			
Investments Reported at Cost																			
Repurchase Agreements ****																			
State & Local Govt Securities																			
U.S. Gov't Agencies																			
U.S. Gov't Agencies																			
Corporate Bonds																			
Commercial Paper																			
Fixed Income Fund																			
Money Market / Mutual Funds		167,880,827							167,880,827										
Other Investments																			
<b>Total Outside Investments at Cost</b>	0	167,880,827	0	0	0	0	0	0	167,880,827	AAAm	Aaa-mf	AAAmmf	167,880,827						
Investments by Fair Value Level																			
<b>Debt Securities</b>																			
U.S. Treasury securities																			
Commercial mortgage-backed securities																			
Collateralized debt obligations (Federal agency bonds)		73,756,165		73,756,165		73,756,165			73,756,165	AA+	Aaa	AAA			73,756,165				
Residential mortgage-backed securities																			
Corporate Bonds																			
<b>Total Debt Securities</b>	0	73,756,165	0	73,756,165	0	73,756,165	0		73,756,165				0	0	73,756,165	0			
<b>Equity Securities</b>																			
Other																			
<b>Total Equity Securities</b>	0	0	0	0	0	0	0	0	0				0	0	0	0			
<b>Venture Capital Investments</b>																			
Direct venture capital -																			
Direct venture capital -																			
<b>Total Venture Capital Investments</b>	0	0	0	0	0	0	0	0	0				0	0	0	0			
<b>Private Equity Funds - International</b>																			
<b>Total Private Equity Funds - International</b>	0	0	0	0	0	0	0	0	0				0	0	0	0			
<b>Total Investments by Fair Value</b>	0	73,756,165	0	73,756,165	0	73,756,165	0		73,756,165				0	0	73,756,165	0			
<b>Investments Measured at the Net Asset Value (NAV)</b>																			
Equity long/short hedge funds																			
Event-driven hedge funds																			
Global opportunities hedge funds																			
Multi-strategy hedge funds																			
Real estate funds																			
<b>Total Investments Measured at the NAV</b>	0	0						0	0				0	0	0	0			
<b>Investments Derivative Instruments</b>																			
Interest Rate Swaps																			
Foreign exchange contracts (liabilities)																			
<b>Total Investment Derivative Instruments</b>	0	0	0	0	0	0	0	0	0				0	0	0	0			
<b>Total Investment</b>	234,507	245,078,635	0	73,756,165	0	73,756,165	171,556,977	0	245,313,142				167,880,827	0	73,756,165	0			

\*\*\*\* 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

Valuation Techniques in fair value determination:

See accompanying notes to financial statements.

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	\$ 180,124,028
Less: cash equivalents disclosed as investments	<u>(171,556,977)</u>
Add: restricted cash and cash equivalents disclosed as deposits	<u>                            </u>
Other (describe) _____	<u>                            </u>
_____	<u>                            </u>
_____	<u>                            </u>
Carrying amount of deposits as disclosed on Form 7	<u>\$ 8,567,051</u>
Investments:	
Investments as reported on balance sheet	\$ 73,756,165
Add: restricted investments disclosed as investments	<u>                            </u>
Add: cash equivalents disclosed as investments	<u>171,556,977</u>
Other (describe) _____	<u>                            </u>
_____	<u>                            </u>
_____	<u>                            </u>
Reported amount of investments as disclosed on Form 8	<u>\$ 245,313,142</u>

See accompanying notes to financial statements.



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**School Building Authority of West Virginia**  
**(A Component Unit of the State of West Virginia)**

Independent Auditor's Report in Accordance  
with *Government Auditing Standards*

Year Ended June 30, 2017

**Independent Auditor’s Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

**Members  
School Building  
Authority of West  
Virginia**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the School Building Authority of West Virginia (Authority), a component unit of the State of West Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated DATE XX, 2017.

**Internal Control over Financial Reporting**

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

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

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

### Compliance and Other Matters

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

### Purpose of this Report

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

Pittsburgh, Pennsylvania  
DATE XX, 2017