

Audited Financial Statements

The West Virginia Water Pollution
Control Revolving Fund

Years Ended June 30, 2012 and 2011



Caudill & Associates
Certified Public Accountants

Audited Financial Statements

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

Years Ended June 30, 2012 and 2011

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Independent Auditor's Report

West Virginia Water Pollution Control Revolving Fund
601 – 57th Street, SE
Charleston, West Virginia 25304

We have audited the accompanying financial statements of net assets of the West Virginia Water Pollution Control Revolving Fund (the Fund), a major fund of the State of West Virginia, as of June 30, 2012, and the related statement of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the West Virginia Water Pollution Control Revolving Fund as of June 30, 2011, were audited by other auditors whose report dated October 12, 2011, expressed an unqualified opinion on those statements.

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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund as of June 30, 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

West Virginia Water Pollution Control Revolving Fund

Independent Auditor's Report (Continued)

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the 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 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the West Virginia Water Pollution Control Revolving Fund financial statements as a whole. The accompanying schedules of individual fund activity on pages 32 to 34 and the other financial information on pages 37 to 40 are presented for purposes of additional analysis and are not a required part of the financial statements. The individual fund financial statements and supplemental forms are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 taken as a whole.

Caudill & Associates, CPAs

Caudill & Associates, CPA
September 27, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

-UNAUDITED-

Our discussion and analysis of the West Virginia Department of Environmental Protection's (WVDEP) West Virginia Water Pollution Control Revolving Fund (the Fund) will provide an overview of the Fund's financial activities for the fiscal year ended June 30, 2012. The Fund operates as the State's Clean Water State Revolving Fund under the federal Clean Water Act (CWA). Please read this in conjunction with the financial statements that begin on page 8.

Financial Highlights

The Water Pollution Control Revolving Fund's increase in net assets was approximately 9.36% or \$51.8 million. The increase in net assets was due mainly to a \$33.0 million increase in loans receivable and a \$9.0 million increase in cash due to the state match deposit.

During the 2012 fiscal year the Fund had operating expenses that exceeded operating revenue by \$1.1 million. This is due to the fact that ARRA disbursements were reported as a \$2.0 million increase in Administrative Expenses. ARRA disbursements did not increase receivables. Federal funding for ARRA disbursements was reported as a \$2.0 million increase in Capital Grants and Contributions from U.S. Environmental Protection Agency.

The Fund's operating revenue of \$4.6 million was a 1.8% increase over fiscal year 2011. This increase is a result of the increases in administrative fees and interest income on loans. This is viewed as favorable since the operating revenue base has consistently increased over the past seven years.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets, and Statement of Cash Flows on pages 8 to 11 provide information about the activities of the Fund and present a long-term view of the Fund's finances. Financial information for the Revolving Loan Fund and the Administrative Fund are shown separately on pages 32 to 34.

We have determined by reviewing the financial statements that the Fund continues to be financially sound and stable. All of the current fiscal year's revenues and expenses are taken into account regardless of when cash is received or paid. The Fund's net assets, the difference between assets and liabilities, are one way to measure the Fund's financial health. The continued increase in net assets is one indicator of improving financial position. The Fund consists only of business-type activities. Governmental activities and other operations of the WVDEP are not a part of the Fund and are not shown as a part of these financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

-UNAUDITED-

The West Virginia Water Pollution Control Revolving Fund

The West Virginia Water Pollution Control Revolving Fund is comprised of two separate funds. The funds are established by the United States Environmental Protection Agency (USEPA) and by State of West Virginia statute. Both funds are proprietary funds and use full accrual accounting. A Statement of Cash Flows accompanies the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Fund Net Assets.

The 1987 amendments to the CWA phased out the EPA Construction Grants Program that began in 1972 and replaced it with the CWSRF, a new low interest loan program. The CWSRF program provides funding to address water quality problems through wastewater facility construction, upgrades, or expansions as well as implementation of Non Point Source (NPS) best management practices (BMPs).

In 1989, the West Virginia State Legislature passed the CWSRF enabling law (Chapter 22C, Article 2 of the State Code). The legislation designated DEP as the State's CWSRF management agency. DEP provides general oversight, fiscal management, and administrative compliance review of local governmental entities that receive funds. In 1990, DEP promulgated program rules and awarded its first CWSRF loan in November 1991.

In 1994, the Legislature created the West Virginia Infrastructure and Jobs Development Council (IJDC) to coordinate State and Federal funding on all water and sewer projects. Before a community can receive a commitment of CWSRF funding, the project must first receive a positive recommendation from the IJDC as required by State law. In addition, the IJDC oversees the disbursement of state general obligation bond and revenue bond proceeds for water, sewer, and economic development projects. DEP participates in the IJDC process to the fullest extent to promote environmentally sound and affordable wastewater projects. Additional coordination with offices of the State Treasurer and the State Auditor ensure inter- and intra-agency coordination, management, oversight, and integrity of the program.

The CWSRF currently has three financial assistance programs:

- Low Interest Loan Program (for municipal wastewater treatment works);
- Agriculture Water Quality Loan Program; and
- Onsite Systems Loan Program.

MANAGEMENT'S DISCUSSION AND ANALYSIS

-UNAUDITED-

The West Virginia Water Pollution Control Revolving Fund as a Whole

Table 1
Net Assets
(in thousands)

	2012	2011
Current assets	\$ 145,999	\$ 121,526
Non current assets	463,767	432,178
Total assets	<u>609,766</u>	<u>553,704</u>
Current liabilities	(4,535)	(281)
Other liabilities	(358)	(330)
Total liabilities	<u>(4,893)</u>	<u>(611)</u>
Net assets:		
Total restricted net assets	<u>\$ 604,873</u>	<u>\$ 553,093</u>

The net assets increased by \$51.8 million or around 9.36% during the fiscal year ended June 30, 2012. Fiscal year 2012 included the receipt of the 23rd Clean Water State Revolving Fund (CWSRF) Capitalization Grant. These funds were committed to finance loans for municipal wastewater pollution control projects for the control of municipal pollution from point source discharges. This capitalization grant will continue the debt forgiveness started by the American Recovery and Reinvestment Act (ARRA) funds. "Second round funds" are those dollars available within the CWSRF from repayments of prior loans and investment earnings. They are used for nonpoint source pollution control project loans and waste water facility funding. Effective October 1, 2002, the program began using the 2000 census as a basis for determining the interest rate and loan term based on median household income. Since the 2010 census did not collect median household income data, other data sources are being evaluated for use by the program.

MANAGEMENT'S DISCUSSION AND ANALYSIS

-UNAUDITED-

Table 2
Revenues, Expenses, and Changes in Fund Net Assets
(in thousands)

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Interest income on loans	\$ 2,363	\$ 2,514
Administration fees on loans	2,268	2,033
	<u>4,631</u>	<u>4,547</u>
Operating expenses	<u>5,740</u>	<u>26,722</u>
Total operating income	(1,109)	(22,175)
Non-operating revenue:		
Investment income	<u>103</u>	<u>168</u>
Income before capital grants and contributions	(1,006)	(22,007)
Capital grants and contributions	<u>52,785</u>	<u>42,107</u>
Change in net assets	<u>\$ 51,779</u>	<u>\$ 20,100</u>

Capital Asset and Debt Administration

The Fund does not own any land, buildings, equipment or infrastructure. The fund has no long term debt.

Significant Facts, Decisions or Conditions

Our grant award for FY 2012 of \$23,019,000 was awarded on September 7, 2011. A required state match of \$4,603,800 was provided by the West Virginia Infrastructure and Jobs Development Council which was deposited in the CWSRF account.

In FY2012, the CWSRF program closed eleven loans to Section 212 point source projects totaling \$85,417,096, \$7,752,466 of which will be principal forgiveness and not a receivable. Nonpoint source loans issued by DEP approved intermediary lenders totaled \$110,794 in the Agriculture Water Quality Loan Program, and \$219,172 in the Onsite Systems Loan Program.

MANAGEMENT'S DISCUSSION AND ANALYSIS

-UNAUDITED-

The one default that had been mentioned in previous audit reports has been cured. There are no municipal entities in monetary default as of June 30, 2012. However there are several entities that continue to have deficiencies in their reserve fund accounts on a monthly basis that are being watched very closely.

In the Onsite Systems Loan Program, there appears to be a growing trend of some homeowners getting behind in their loan payments. These situations are also being closely monitored. There have been two uncollectible defaults due to the filing of bankruptcies. There were no bankruptcies in fiscal year 2012.

Contacting the Fund's Financial Management

The financial reports are designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Fund's finances and to show the Fund's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Fiscal Office of WVDEP or the State Revolving Fund, both located at 601 57th Street S.E., Charleston, WV 25304, 304-926-0440.

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

STATEMENT OF NET ASSETS

June 30, 2012 and 2011

	2012	2011
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 118,371,750	\$ 95,454,661
Receivables:		
Due from WV Department of Environmental Protection	6,730	8,288
Interest on loans	193,981	205,945
Administrative fees on loans	188,997	173,251
Current maturities of loans receivable	27,238,249	25,683,412
Total current assets	145,999,707	121,525,557
Loans receivable, net of current maturities	463,766,731	432,178,281
Total assets	\$ 609,766,438	\$ 553,703,838
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	44,571	201,803
Unearned Revenue	4,406,200	-
Current Compensated Absences	85,092	78,787
Total current liabilities	4,535,863	280,590
Compensated absences, net of current portion	21,550	40,552
Other post employment benefits	336,262	289,416
Total liabilities	4,893,675	610,558
<u>NET ASSETS</u>		
Net assets, restricted	604,872,763	553,093,280
Total net assets	\$ 604,872,763	\$ 553,093,280

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

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS

Years Ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Interest on loans	\$ 2,362,729	\$ 2,514,163
Administrative fees	2,267,722	2,033,085
	4,630,451	4,547,248
Operating expenses:		
Personnel costs	1,314,112	1,224,083
Other administrative costs	4,425,683	25,498,467
	5,739,796	26,722,550
Total operating income	(1,109,345)	(22,175,302)
Non-operating revenues:		
Investment income	102,890	168,519
Income before capital grants and contributions	(1,006,455)	(22,006,783)
Capital grants and contributions:		
U.S. Environmental Protection Agency	48,182,138	35,698,873
State of West Virginia	4,603,800	6,407,985
	52,785,938	42,106,858
Change in net assets	51,779,483	20,100,075
Net assets, beginning of year	553,093,280	532,993,205
Net assets, end of year	\$ 604,872,763	\$ 553,093,280

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

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

STATEMENT OF CASH FLOWS

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating activities:		
Cash payments for:		
Loans originated	\$(58,952,887)	\$(39,911,743)
Personnel expenses	(1,281,434)	(1,200,229)
Administrative expenses	(173,687)	(25,362,874)
Cash receipts for:		
Principal repayments	25,809,600	23,936,354
Interest on loans revenue	2,374,693	2,526,623
Administrative fee revenue	2,251,976	2,025,805
	<u>(29,971,739)</u>	<u>(37,986,064)</u>
Capital and related financing activities:		
Capital grants and contributions from the U.S. Environmental Protection Agency	48,182,138	35,698,873
Capital grants and contributions from the State of West Virginia	<u>4,603,800</u>	<u>6,407,985</u>
	<u>52,785,938</u>	<u>42,106,858</u>
Investing activities:		
Investment income	<u>102,890</u>	<u>168,519</u>
	22,917,089	4,289,313
Cash and cash equivalents balance, beginning of year	<u>95,454,661</u>	<u>91,165,348</u>
	<u>\$ 118,371,750</u>	<u>\$ 95,454,661</u>

(Continued)

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

STATEMENT OF CASH FLOWS
(Continued)

Years Ended June 30, 2012 and 2011

Reconciliation of operating income to cash used in operating activities:

	2012	2011
Operating income	\$ (1,109,345)	\$(22,175,302)
Adjustments to reconcile net income to cash provided by operating activities:		
Increase in loans receivable, net	(33,143,287)	(15,967,691)
(Increase) decrease in other receivables	(2,224)	45,476
Increase (decrease) in due to WV Department of Environmental Protection	-	(58,439)
Increase (decrease) in unearned revenue	4,406,200	-
Increase (decrease) in compensated absences	(12,697)	(20,933)
Increase (decrease) in OPEB	46,846	6,226
Increase (decrease) in accounts payable	(157,232)	184,599
	\$(29,971,739)	\$(37,986,064)

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

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF THE FUND

The West Virginia Water Pollution Control Revolving Fund (the Fund) was established pursuant to Title VI of the Clean Water Act and by the West Virginia Legislature under Chapter 22C, Article 2 of the West Virginia Code, as a component unit of the State of West Virginia. The purpose of the act was to establish and implement a State operated revolving loan fund to provide low interest loans to communities that require sewer service either by upgrading the existing wastewater system or establishing a new utility, clean up the State's water supply, and remain in perpetuity by recirculating the principal and interest earned from the loans. The Fund's loan programs are designed to provide financial assistance to local governmental entities (such as municipalities and public service districts) in West Virginia to assist in complying with the Clean Water Act. Such loan programs provide long-term financing to cover the cost of construction for qualifying projects for pollution control, including non-point source projects and developing estuary conservation and management plans.

The Fund was capitalized by the U.S. Environmental Protection Agency (EPA) through a series of grants starting in 1990. States are required to provide an additional twenty percent of the Federal award as matching funds in order to receive continued funding. As of June 30, 2012, Congress authorized the EPA to award \$531,574,586 in capital grants and contributions to the Fund. The State of West Virginia is required to contribute \$94,120,127 in matching funds.

The State of West Virginia charges the Fund for time spent on activities by employees, and the Fund reimburses the State of West Virginia for such costs. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Fund based on direct salary costs. Employees charging time to the Fund are covered by the benefits provided to all employees of the State of West Virginia.

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Fund is accounted for as a proprietary fund special purpose government engaged in business type activities. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," and accounting principles generally accepted in the United States of America, the financial statements are prepared on the accrual basis of accounting, using the flow of economic resources measurement focus. Under this basis of

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

accounting, revenues are recognized when earned and expenses are recognized when incurred. As permitted by GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the Fund has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB statements or interpretations.

The Fund is included in the State's basic financial statements as a proprietary fund and business type activity using the accrual basis of accounting. Because of the Fund's presentation in these financial statements as a special purpose government engaged in business type activities, there may be differences in presentation between the amounts reported in these financial statements and the basic financial statements of the State as a result of major fund determination.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of interest-earning deposits with the West Virginia Board of Treasury Investments (BTI), which are carried at market value, which approximates cost. These deposits are not separately identifiable as to specific types of securities. Such funds are available to the Fund with overnight notice.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from management's estimates.

Loans Receivable

The State of West Virginia operates the Fund as a revolving direct loan program, whereby loans made to recipients are funded by the Federal capital grants and contributions

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable (Continued)

and the corresponding state matching amount. Loan funds are disbursed to the local recipient agencies as they incur costs on the approved project. Interest, if applicable, is calculated from the date that recipients begin repayment, and the payment schedule is adjusted for actual amounts disbursed and interest accrued. The loans are secured by a lien on the revenues of the recipients' system project and by debt service reserve funds held by the West Virginia Municipal Bond Commission. No provision for uncollectible accounts has been made since management believes that all loans will be repaid.

Administrative Fees

Administrative fees are composed of a percentage of the outstanding loan balance and are recognized as income when fees are earned over the life of the loan. Administrative fees are collected concurrently with principal reduction payments by individual borrowers at terms set forth in the applicable loan agreements over the life of the loan.

Compensated Absences

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

Capital Grants and Contributions

Amounts received from the EPA and the State of West Virginia for the continued capitalization of the Fund, are recorded at cost as capital grants and contributions.

Net Assets

Net assets are the difference between assets and liabilities. Net assets are presented as restricted. Restrictions on net assets are externally imposed constraints by the grantor agency on the residual portion of capital grants and contributions available for lending purposes.

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses

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

3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of deposits with the State Treasurer's Office and the West Virginia Board of Treasury Investments (BTI).

At June 30, 2012 and 2011, the balances with each were as follows:

	2012	2011
State Treasurer's Office	\$ -	\$ 135,376
BTI	118,371,750	95,319,285
Total	\$ 118,371,750	\$ 95,454,661

The State Treasurer's Office has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards, and commissions. The State Treasurer's Office determines which funds to transfer to the BTI for investment in accordance with the West Virginia Code, policies set by the BTI, and provisions of bond indentures and trust agreements when applicable. The Fund's cash balances are invested with the BTI in investment pools.

Deposits with BTI at June 30, 2012 and 2011 were invested in two investment pools as follows:

	2012	2011
WV Money Market Pool	\$ 112,708,002	\$ 90,019,283
WV Government Money Market Pool	5,663,748	5,300,002
Total investments	\$ 118,371,750	\$ 95,319,285

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

3 - CASH AND CASH EQUIVALENTS (Continued)

The following information addresses risks associated with deposited investments with the BTI as of June 30, 2012:

WV Money Market Pool

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury issues.

The following table provides information on the credit ratings of the WV Money Market Pool's investments:

Security Type	Moody's	S&P	Carrying Value	Percent of Assets
Commercial paper	P1	A-1	\$ 853,470,000	30.62%
Corporate bonds and notes	Aa2	AA-	15,000,000	.54
Corporate bonds and notes	Aa3	AA-	13,000,000	.47
Corporate bonds and notes	Aa3	A+	<u>8,000,000</u>	<u>.29</u>
Total corporate bonds and notes			36,000,000	1.30
U.S. agency bonds	Aaa	AA+	189,691,000	6.80
U.S. Treasury notes *	Aaa	AA+	330,865,000	11.87
U.S. Treasury bills *	Aaa	AA+	237,978,000	8.54
Negotiable certificates of deposit	P-1	A-1	110,000,000	3.95
U.S. agency discount notes	P-1	A-1+	738,706,000	26.50
Money market funds	Aaa	AAAm	200,054,000	7.18
Repurchase agreements (underlying securities):				
U.S. Treasury notes*	Aaa	AAA	<u>90,204,000</u>	<u>3.24</u>
			<u>\$ 2,786,968,000</u>	<u>100.00%</u>

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

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

3 - CASH AND CASH EQUIVALENTS (Continued)

WV Money Market Pool (Continued)

Concentration of credit risk

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

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. Securities lending collateral that is reported on the Statement of Fiduciary Net Assets is invested in a pool managed by the securities lending agent. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

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 investment of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 731 days.

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

3 - CASH AND CASH EQUIVALENTS (Continued)

WV Money Market Pool (Continued)

Interest rate risk (Continued)

The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool.

<u>Security Type</u>	<u>Carrying Value</u>	<u>WAM (days)</u>
Repurchase agreements	\$ 90,204,000	3
U. S. Treasury notes	330,865,000	122
U. S. Treasury bills	237,978,000	37
Commercial paper	853,470,000	35
Certificates of deposit	110,000,000	10
U.S. agency discount notes	738,706,000	44
Corporate bonds and notes	36,000,000	48
U.S. agency bonds/notes	189,691,000	68
Money market funds	200,054,000	1
	<u>\$ 2,786,968,000</u>	<u>46</u>

Foreign currency risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The WV Money Market Pool holds no interests in foreign currency or interests valued in foreign currency.

WV Government Money Market Pool

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

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

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

3 - CASH AND CASH EQUIVALENTS (Continued)

WV Government Money Market Pool (Continued)

Credit risk (Continued)

The following table provides information on the credit ratings of the WV Government Money Market Pool's investments:

Security Type	Moody's	S&P	Carrying Value	Percent of Assets
U.S. agency bonds	Aaa	AA+	\$ 23,004,000	7.68%
U.S. Treasury notes*	Aaa	AA+	103,324,000	34.48
U. S. Treasury bills*	Aaa	AA+	4,999,000	1.67
U.S. agency discount notes	P-1	A-1+	76,397,000	25.50
Money market funds	Aaa	AAAm	5,000	0.00
Repurchase agreements (underlying securities):				
U.S. Treasury notes	Aaa	AAA	46,900,000	15.65
U.S. agency notes	Aaa	AAA	45,000,000	15.02
Total repurchase agreements			91,900,000	30.67
			\$ 299,629,000	100.00%

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

Concentration of credit risk

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

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. Securities lending collateral that is reported on the Statement of Fiduciary Net Assets is invested in a pool managed by the securities lending agent. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

3 - CASH AND CASH EQUIVALENTS (Continued)

WV Government Money Market Pool (Continued)

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All Consolidated Fund Pools and accounts are subject to interest rate risk.

The overall weighted average maturity of the investments of the WV Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 731 days.

The following table provides information on the weighted average maturities for the various asset types in the WV Government Money Market Pool:

Security Type	Carrying Value	WAM (days)
Repurchase agreements	\$ 91,900,000	3
U. S. Treasury notes	103,324,000	111
U. S. Treasury bills	4,999,000	62
U.S. agency discount notes	76,397,000	52
U.S. agency bonds/notes	23,004,000	9
Money market funds	5,000	1
	\$ 299,629,000	54

Foreign currency risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment or a deposit. The WV Government Money Market Pool holds no interests in foreign currency or interests valued in foreign currency.

Securities lending

The BTI closed its securities lending program in July 2011. The BTI does not believe the increased risk of a securities lending program justifies its continuing participation in the program. Since fiscal year 2009, the BTI wound down its securities lending program controlled withdrawal from the program to reduce risk and minimize losses. This strategy

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

3 - CASH AND CASH EQUIVALENTS (Continued)

WV Government Money Market Pool (Continued)

Securities lending (Continued)

allowed the BTI to incorporate a more conservative collateral reinvestment policy, cap the program at a more manageable level, and raise cash for liquidity. The realized loss on the transaction was \$215,000 for the year ended June 30, 2012. In planning for the exit from securities lending activities, the BTI had approximately \$1.7 million of reserves set aside to cover potential losses from the securities lending program.

4 - LOANS RECEIVABLE

As of June 30, 2012 and 2011, loans receivable consisted of loans to municipalities and public service districts for the construction of sewer facilities to comply with the Clean Water Act. In addition, during the fiscal years ended June 30, 2012 and 2011, loans were issued to financial institutions for the non-point source program used to provide matching low interest loans for eligible recipients. Loans for municipalities and public service districts carry interest rates ranging from 0% to 3% and administrative fees ranging from 0% to 1%, not to exceed an aggregate of 3%. Loans for the non-point source program carry interest rates from 0% to 2%, which are retained by the financial institution. Loans for municipalities and public service districts are generally amortized over a period not to exceed forty years starting one year after the project is completed, and loans from the non-point source program are generally amortized over a period not to exceed ten years.

Loans with municipalities and public service districts are secured by the net revenues of the respective system, and the municipalities and public service districts are required to maintain a reserve account with the West Virginia Municipal Bond Commission. Loans to recipients who issue bonds for repayment of the loan are required to deposit in the reserve account an amount equal to not less than one-twelfth of one-tenth of the reserve requirement or, if funded, an amount necessary to maintain the reserve account at the reserve requirement.

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

4 - LOANS RECEIVABLE (Continued)

The reserve requirement is generally equal to one year's principal and interest payments and is required to be fully funded within ten years from issuance of the debt. Loans for the non-point source program are made to the approved financial institutions that in turn make loans to eligible recipients based on approved projects. The financial institutions assume credit risk for the loans to the eligible recipients.

As of June 30, 2012, seventy-four loans outstanding have cumulative deficiencies in reserve fund balances of \$559,341.

Total cumulative loans authorized as of June 30, 2012 and 2011 were as follows:

	2012		2011	
	Loans Authorized	Remaining Commitment	Loans Authorized	Remaining Commitment
Completed projects	\$623,348,066	-	\$555,354,970	-
Projects in progress	173,365,637	\$69,278,887	163,527,007	\$50,400,048
	\$796,713,703	\$69,278,887	\$718,881,977	\$50,400,048

Loans mature at various intervals through June 1, 2052. Payment schedules are calculated based on the authorized loan amount. If a loan recipient does not utilize the entire authorized amount, the payment schedule is recalculated to reflect the reduced amount. The \$69.2 million difference in the scheduled principal payments shown below and loans receivable in the Statement of Net Assets represents the amount of authorized loans not utilized at June 30, 2012.

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

4 - LOANS RECEIVABLE (Continued)

The scheduled principal payments on all loans maturing in subsequent years are as follows at June 30, 2012:

	2013	\$ 27,238,249
	2014	28,919,720
	2015	29,947,034
	2016	29,547,316
	2017	28,575,516
	Thereafter	416,056,032
		<u>560,283,867</u>
Less current maturities		<u>27,238,249</u>
		533,045,618
Less authorized, but not disbursed		<u>69,278,887</u>
		<u>\$ 463,766,731</u>

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

4 - LOANS RECEIVABLE (Continued)

Major Loans to Local Agencies

As of June 30, 2012 and 2011, the Fund has authorized loans to thirty-one separate entities, respectively, that exceed \$7 million each. The outstanding balances of these loans represent approximately 71% and 70% of the total loans receivable as of June 30, 2012 and 2011, respectively, as follows:

Local Agency	Authorized Loan Amount	June 30, 2012 Balance	June 30, 2011 Balance
Beckley	\$ 21,754,099	13,095,821	\$ 14,004,762
Berkeley County PSD	80,778,117	49,125,591	52,124,198
Bluefield	9,368,645	2,027,151	2,495,579
Charleston	56,627,889	28,524,186	20,802,610
Charles Town	20,498,574	6,321,359	-0-
Clarksburg	7,484,243	3,123,374	3,497,420
Claywood Park PSD	8,327,500	7,549,716	7,587,108
Crab Orchard McArthur PSD	13,576,451	9,587,407	6,662,751
Dunbar	16,152,148	9,163,231	9,784,467
Elk Valley	18,061,117	17,459,077	17,734,553
Elkins	9,759,411	8,133,638	8,498,115
Flatwoods Canoe Run	11,329,000	6,577,891	1,397,478
Follansbee	8,616,372	3,338,827	3,769,647
Hancock	11,349,771	7,673,631	7,952,092
Huntington	13,600,844	8,386,603	6,628,280
Logan	9,796,940	8,425,823	8,570,188
Lubeck PSD	8,666,272	3,638,790	3,875,625
Moorefield	17,900,000	1,553,458	-0-
Morgantown	51,633,895	32,758,074	31,841,179
Nitro	9,453,080	5,139,928	5,004,249
North Beckley PSD	17,942,963	11,660,578	11,914,728
Parkersburg	23,233,747	14,744,247	14,904,461
Pea Ridge	15,200,321	10,691,249	11,244,411
Princeton	9,100,000	7,083,530	1,131,475
Saint Albans	16,281,000	8,949,840	9,750,501
Salt Rock PSD	13,938,062	11,044,230	11,386,495
Scotts Run PSD	9,800,207	8,092,507	8,066,136
Shady Spring PSD	13,233,510	8,618,238	8,921,076
Shepherdstown	9,172,697	8,561,582	3,230,012
Union Williams	16,008,291	12,348,033	12,881,642
Wheeling	22,856,000	17,458,549	12,993,290
	<u>\$ 571,501,166</u>	<u>350,856,160</u>	<u>\$ 318,654,528</u>

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

4 - LOANS RECEIVABLE (Continued)

The authorized loan amount includes both completed projects and projects in progress.

5 - DUE TO OTHER AGENCIES

The Fund reimburses the West Virginia Department of Environmental Protection (the Department) for the direct and indirect costs incurred by the Fund, but paid by the Department. In addition, the Fund has an operating agreement with the West Virginia Water Development Authority for project analysis and administrative services. At June 30, 2012 and 2011, the Fund owed \$ -0- and \$-0-, respectively to the Department, and \$18,120 and \$180,384, respectively, to the West Virginia Water Development Authority.

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

6 - CAPITAL GRANTS AND CONTRIBUTIONS

The Fund is perpetuated by other net revenues, grants, and contributions from the EPA under the Clean Water Act and matching funds from the State of West Virginia. All funds drawn are recorded as capital grants and contributions from the EPA and the State of West Virginia. As of June 30, 2012, the cumulative amounts awarded to the Fund from the EPA and required matching funds from the State of West Virginia were as follows:

Federal Fiscal Year	EPA Grant Amounts	State Match Amounts
1990	\$ 20,889,974	\$ 4,177,994
1991	31,353,287	6,270,657
1992	9,661,835	1,932,367
1993	30,288,852	6,057,770
1994	29,962,449	5,992,490
1995	37,792,161	7,558,432
1996	No Award	No Award
1997	41,165,207	8,233,041
1998	20,991,267	4,198,253
1999	20,993,049	4,198,610
2000	20,921,868	4,184,373
2001	20,735,946	4,147,189
2002	No Award	No Award
2003	20,859,280	4,171,893
2004	20,821,900	4,174,379
2005	37,435,400	7,500,678
2006	13,650,912	2,730,182
2007	16,684,470	3,336,894
2008	10,607,850	2,121,570
2009	48,873,680	-
2010	22,826,270	2,121,570
2011	32,039,929	6,407,985
2012	23,019,000	4,603,800
Total	<u>\$ 531,574,586</u>	<u>\$ 94,120,127</u>

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

6 - CAPITAL GRANTS AND CONTRIBUTIONS (Continued)

Subsequent to June 30, 2012 the Fund had applied for additional funding from the EPA under the Clean Water Act in the amount of \$22,031,000. The respective matching funds from the State of West Virginia of \$4,406,200 were received in fiscal year 2012.

The following represents the amounts of the EPA grants and contributions received and receivable and the applicable State amounts contributed to the fund as of June 30, 2012.

June 30	Federal Capital	State Capital	Total Capital Grants and Contributions
1992	\$ 258,894	\$ 4,100,000	\$ 4,358,894
1993	11,435,030	-	11,435,030
1994	6,550,679	3,873,001	10,423,680
1995	11,427,541	10,465,787	21,893,328
1996	22,336,689	5,992,490	28,329,179
1997	13,347,837	7,558,432	20,906,269
1998	22,507,123	-	22,507,123
1999	34,283,138	8,233,041	42,516,179
2000	47,718,753	8,396,863	56,115,616
2001	54,843,161	4,184,373	59,027,534
2002	22,842,295	4,147,189	26,989,484
2003	28,135,192	4,156,416	32,291,608
2004	32,799,962	-	32,799,962
2005	31,477,847	8,307,321	39,785,168
2006	20,241,737	3,367,686	23,609,423
2007	12,627,016	2,730,182	15,357,198
2008	20,788,189	3,336,894	24,125,083
2009	11,384,297	2,121,570	13,505,867
2010	34,164,564	2,121,570	36,286,134
2011	35,698,873	6,407,985	42,106,858
2012	48,182,138	9,010,000	57,192,138
Total	<u>\$ 523,050,955</u>	<u>\$ 98,510,800</u>	<u>\$ 621,561,755</u>

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

7 - RISK MANAGEMENT

The Fund 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 Fund has obtained coverage for job-related injuries of employees and health coverage for its employees through its participation in the former West Virginia Workers' Compensation Commission and effective January 1, 2006, Brickstreet Mutual Insurance Company (Brickstreet) and the West Virginia Public Employees Insurance Agency (PEIA). On October 1, 2011 Brickstreet was replaced by Zurich American Insurance Company (Zurich North America). In exchange for the payment of premiums to PEIA and Zurich, the Fund has transferred its risk related to health coverage for employees and job-related injuries of employees.

The Fund participates in the West Virginia Board of Risk and Insurance Management to obtain coverage for general liability, personal injury liability, professional liability, stopgap liability, wrongful act liability, and comprehensive auto liability. Such coverage is offered in exchange for an annual premium.

8 – PENSION PLAN

All full-time Fund employees are eligible to participate in the State of West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit public employee retirement system. The PERS is one of several plans administered by the West Virginia Consolidated Public Retirement Board (CPRB) under the direction of its Board of Trustees, which consists of the Governor, State Auditor, State Treasurer, Secretary of the Department of Administration, and nine members appointed by the Governor. CPRB prepares separately issued financial statements for each retirement system it administers, which can be obtained from Consolidated Public Retirement Board, 4101 MacCorkle Ave S.E., Charleston, West Virginia 25304-1636.

Employees who retire at or after age sixty with five or more years of contributory service or who retire at or after age fifty-five and have completed twenty-five years of credited service are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

8 – PENSION PLAN (Continued)

employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement.

Covered employees are required to contribute 4.5% of their salary to the PERS, and the Fund is required to contribute 14.5% of covered employees' salaries to the PERS. The required employee contribution percentage has been established and changed from time to time by action of the State Legislature. The employer contribution percentage has been established by PERS. The required contributions are not actuarially determined; however, actuarial valuations are performed to assist the Legislature in determining appropriate values. The Fund and employee contributions, which equal the required contributions, for the three years ended June 2012, 2011, and 2010 are as follows:

	2012	2011	2010
Fund contributions (14.5%/12.5%/11%)	\$ 136,121	\$ 113,380	\$ 106,129
Employee contributions (4.5%)	43,843	47,943	49,852
Total contributions	<u>\$ 179,964</u>	<u>\$ 161,323</u>	<u>\$ 155,981</u>

9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The GASB has issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", and Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (OPEB). The GASB statements are based on the premise that the "costs" of employee services should be reported during the periods when the services are rendered. Beginning with fiscal year ending June 30, 2008, the State will implement accounting and financial reporting requirements as an employer under GASB Statement No. 45. The financial statements will report OPEB funded status and funding progress and any "premium subsidy" resulting from the pooling of retiree participants with active employees in the health benefit plans. For "employer" OPEB reporting the State will report "expense" on an accrual basis in the amount of the "annual required contribution" and a "liability" for the amount of the "annual required contribution" that was not actually paid.

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Funds have not been set aside to pay future costs of retirees, but the Legislature in response to the GASB statements, has made statutory changes to create the West Virginia Retiree Health Benefit Trust Fund (RHBT), an irrevocable trust fund, in which employer contributions for future retiree health costs may be accumulated and invested, and which is expected to facilitate the separate financial reporting of OPEB. The legislation requires the RHBT to determine through an actuarial study, as prescribed by GASB Statement No. 43, the Annual Required Contribution (the ARC) which shall be sufficient to maintain the RHBT in an actuarially sound manner. The ARC shall be allocated to respective employers including the Fund who are required by law to remit at least the minimum annual premium component of the ARC. Revenues collected by RHBT shall be used to fund current OPEB healthcare claims and administrative expenses with residual funds held in trust for future OPEB costs.

Plan Description

The Fund participates in the West Virginia Other Postemployment Benefit Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employee Insurance Agency (WVPEIA). The OPEB Plan provides retiree post-employment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia 1931, as amended (the Code), assigns the authority to establish and amend benefit plans to the WVPEIA Board of Trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to Public Employees Insurance Agency, 601 57th St., S.E., Suite 2, Charleston, West Virginia, 25304, or by calling 1-888-680-7342.

Funding Policy

The Code requires the OPEB Plan to bill the participating employers 100% of the Annual Required Contribution (ARC), an amount actuarially determined in accordance with 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. State of West Virginia plan employers are billed per active health policy per month.

The ARC rate for years ended June 30, 2012 and 2011 was \$794 and \$742 per employee per month, respectively. Through June 30, 2012 and 2011, the Fund paid premiums of \$0 and \$0, and the State of West Virginia, on the Fund's behalf, paid \$0 and \$0 towards the

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

annual Required Contribution, respectively. As of June 30, 2012, 2011 and 2010, the Fund has recorded a liability of \$336,262, \$289,416 and \$283,190, respectively.

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

SCHEDULES OF INDIVIDUAL FUND ACTIVITY

SCHEDULES OF ASSETS, LIABILITIES, AND NET ASSETS

JUNE 30, 2012

Assets:	Administrative Fee Fund	Loan Fund	Combined Fund Totals
Cash equivalents	\$ 5,663,748	\$ 112,708,002	\$ 118,371,750
Receivables:			
Due from West Virginia Department of Environmental Protection	6,730	-	6,730
Interest on loans	-	193,981	193,981
Administrative fees on loans	188,997	-	188,997
Loans receivable	-	491,004,980	491,004,980
	<hr/>	<hr/>	<hr/>
Total assets	\$ 5,859,475	\$ 603,906,963	\$ 609,766,438
	<hr/>	<hr/>	<hr/>
Liabilities:			
Accounts payable:	44,571	-	44,571
Unearned Revenue	-	4,406,200	4,406,200
Compensated absences	106,642	-	106,642
Other Post-Employment Benefits	336,262	-	336,262
	<hr/>	<hr/>	<hr/>
Total liabilities	487,475	4,406,200	4,893,675
	<hr/>	<hr/>	<hr/>
Restricted net assets	\$ 5,372,000	\$ 599,500,763	\$ 604,872,763
	<hr/>	<hr/>	<hr/>

See Independent Auditors' Report.

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

SCHEDULES OF INDIVIDUAL FUND ACTIVITY

SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2012

	Administrative Fee Fund	Loan Fund	Combined Fund Totals
Operating revenues:			
Interest income on loans	\$ -	\$ 2,362,729	\$ 2,362,729
Administration fees on loans	2,267,722	-	2,267,722
Total revenues	2,267,722	2,362,729	4,630,451
Operating expenses:			
Personnel costs	1,314,112	-	1,314,112
Other administrative costs	557,104	3,868,580	4,425,683
Total expenses	1,871,216	3,868,580	5,739,796
Operating income	396,506	(1,505,851)	(1,109,345)
Non-operating revenue:			
Investment income	2,973	99,917	102,890
Non-operating revenue	-	-	-
Capital grants and contributions	-	52,785,938	52,785,938
Net assets, beginning of year	4,717,792	548,375,488	553,093,280
Net assets, end of year	\$ 5,117,271	\$ 599,755,492	\$ 604,872,763

SCHEDULE OF CASH FLOWS

Year Ended June 30, 2012

	Administrative Fee Fund	Loan Fund	Combined Fund Totals
Operating activities:			
Cash payments for:			
Loans originated	\$ -	\$ (58,952,887)	\$ (58,952,887)
Personnel expenses	(1,281,434)	-	(1,281,434)
Administrative expenses	(711,307)	537,620	(173,687)
Cash receipts for:			
Principal repayment	-	25,809,600	25,809,600
Interest on loans revenue	-	2,374,693	2,374,693
Administrative fee revenue	2,251,976	-	2,251,976
Net cash provided by (used in) operating activities	\$ 259,235	\$ (30,230,974)	\$(29,971,739)

See Independent Auditors' Report.

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

SCHEDULES OF INDIVIDUAL FUND ACTIVITY

SCHEDULE OF CASH FLOWS
(Continued)

Year Ended June 30, 2012

	Administrative Fee Fund	Loan Fund	Combined Fund Totals
Capital and related financing activities:			
Capital grants and contributions	\$ -	\$ 52,785,938	\$ 52,785,938
Investing activities:			
Investing income	2,973	99,917	102,890
Net increase in cash	262,208	22,654,881	22,917,089
Cash equivalents, beginning of year	\$ 5,411,561	\$ 90,043,100	\$ 95,454,661
Cash equivalents, end of year	\$ 5,673,769	\$ 112,697,981	\$ 118,371,750
Reconciliation of operating income to cash used in operating activities:			
Operating income	396,506	(1,505,851)	(1,109,345)
Increase in loans receivable		(33,143,287)	(33,143,287)
Increase (decrease) in other receivables	(14,188)	11,964	(2,224)
Increase (decrease) in unearned revenue	-	4,406,200	4,406,200
Increase (decrease) in compensated absences	(12,697)	-	(12,697)
Increase in other post employment benefits	46,846	-	46,846
Increase (decrease) in accounts payable	(157,232)	-	(157,232)
	<u>\$ 259,235</u>	<u>\$(30,230,974)</u>	<u>\$(29,971,739)</u>

See Independent Auditors' Report



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Independent Auditor's Report on Compliance with Requirements Applicable to the Capitalization Grant for Clean Water State Revolving Fund and on Internal Control Over Compliance in Accordance with the Program-Specific Audit Option under OMB Circular A-133

West Virginia Water Pollution Control Revolving Fund
601 57th Street, S.E.
Charleston, West Virginia 25304

We have audited the compliance of the West Virginia Pollution Control Revolving Fund, (the Fund) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that are applicable to the Capitalization Grant for Clean Water State Revolving Fund for the year ended June 30, 2012. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the *Capitalization Grant for Clean Water State Revolving Fund* occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Fund's compliance with those requirements.

In our opinion, the West Virginia Water Pollution Control Revolving Fund complied, in all material respects, with the requirements referred to above that are applicable to its *Capitalization Grant for Clean Water State Revolving Fund* for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Fund's internal control over compliance with requirements that could have a direct and material effect on its Capitalization Grant for Clean Water State Revolving Fund in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the West Virginia Water Pollution Control Revolving Fund's internal control over compliance.

West Virginia Water Pollution Control Revolving Fund

**Independent Auditor's Report on Compliance with Requirements
Applicable to the Capitalization Grant for Clean Water State Revolving Fund and on Internal Control Over
Compliance in Accordance with the Program-Specific Audit Option under OMB Circular A-133 (Continued)**

Internal Control Over Compliance (Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Fund's management, the State of West Virginia, and federal awarding agency, and is not intended to be and should not be used for anyone other than these specified parties.

Caudill & Associates, CPA

Caudill & Associates, CPA
September 27, 2012

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

DUE DATES (Forms 1-16) :
Draft Sept 14, 2012 Final Oct. 15, 2012

GAAP TRANSMITTAL FORM

Audited Agency **WV Water Pollution Control Revolving Fur**

THE FOLLOWING GAAP REPORTING FORMS ARE ATTACHED:

FORMS	DATE		N/A
	COMPLETED		
WVFIMS OPENING BALANCE REPORTS	Due 8/31		
Verify the WVFIMS balance sheet, revenues, and expenditures (expenses) reports.		7/31/2012	
AUDIT NOTIFICATION FORM		5/23/2012	
UNBUDGETED LIABILITIES	Due 8/31	N/A	
FINANCIAL STATEMENTS			
FORM 1- BALANCE SHEET			x
FORM 1A- STATEMENT OF NET ASSETS			x
FORM 2- STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES			x
FORM 2A- STATEMENT OF ACTIVITIES			x
FORM 3- STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS			x
FORM 4- STATEMENT OF CASH FLOWS			x
NET ASSETS			
FORM 5- NET ASSET RESTATEMENTS			x
FORM 6- RESTRICTED NET ASSETS/RESERVED FUND EQUITY			x
DEPOSITS & INVESTMENTS			
FORM 7- DEPOSITS DISCLOSURE		7/27/2012	
TRANS TREASURER - OUTSIDE BANK ACCOUNTS			
FORM 8- INVESTMENTS DISCLOSURE		7/27/2012	
FORM 8A- DEPOSITS AND INVESTMENTS RECONCILIATION		7/27/2012	
RECEIVABLES & PAYABLES			
FORM 9- RECEIVABLES			x
FORM 10- DUE FROM OTHER FUNDS- PG			x
FORM 10A- DUE TO OTHER FUNDS- PG			x
AGENCY LISTING			x
FORM 11- DUE FROM/TO OTHER FUNDS-CU			x
CAPITAL ASSETS			
FORM 12- CAPITAL ASSETS			x
LONG-TERM DEBT			
FORM 13- CHANGES IN LONG-TERM OBLIGATIONS			x
FORM 14- DEBT PAYMENT			x
OPERATING TRANSFERS			
FORM 15- TRANSFERS IN/OUT			x
SINGLE AUDIT			
FORM 16 - PRIOR YEAR AUDIT FINDINGS			x
DUE FROM/TO OTHER GOVERNMENTS			
FEDERAL GRANT SOFTWARE	Due 7/31		x
FORM 17 FEDERAL GRANT/SEFA SOFTWARE CHECK LIST	Due 7/31		x
FORM 17 A FEDERAL GRANT/AWARD ACCOUNTS PAYABLE	Due 7/31		
FORM 17 B FEDERAL TRANSFERS REPORTING (REC'D FROM)	Due 7/31		x
FORM 17 C FEDERAL TRANSFERS REPORTING (DISTRIBUTED TO)	Due 7/31		x
FORM 17 D CAPITAL GRANTS/CONTRIBUTIONS	Due 7/31		x

Revised

** Form changed from prior year

Jamie Lenore Chambers
Prepared By
304-926-0499 ext. 1755
Agency Telephone Number
7/31/2012
Date

Please send completed transmittal form and completed forms to:
2101 Washington Street East
Building 17, 3rd Floor
Charleston, WV 25305

Telephone Number 558-4083
Fax Number 558-4084

STATE OF WEST VIRGINIA
 DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
 FINANCIAL ACCOUNTING AND REPORTING SECTION
 GAAP REPORTING FORM - DEPOSITS DISCLOSURE

FORM 7

Audited Agency WV Water Pollution Control Revolving Fund

Per GASB Statement 40 the Institution 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 Institution's deposit policy.

See Note Three in the Audited 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, 2012																	
Cash with Treasurer																	
Per WVFIMS Opening Balance Re	0		0														
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	0	0	0	0	0	0	0	0	0	0	0						0

PLEASE SEND COMPLETED FORMS TO:

State of West Virginia
 Financial Accounting and Reporting Section
 2101 Washington Street East
 Building 17, 3rd Floor
 Charleston, WV 25305

Telephone Number (304) 558-4083
 Fax Number (304) 558-4084

Audited Agency WV Water Pollution Control Revolving Fu

Per GASB Statement 40 the Institution must disclose it's 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 Institution's investment policy

	Reported Amount Unrestricted	Reported Amount Restricted	Custodial Credit Risk			Reported Amount**	Fair Value	Credit Ratings			Interest Rate Risk - Segmented Time Distribution				Foreign Currency Risk		
			Category 1	Category 2	Category 3			Standard & Poor's	Moody's	Fitch	Investment Maturities (in years)				Currency Type	Maturity	Fair Value
			(Based on reported amounts)					Less than 1	1 - 5	6 -10	More than 10						
Investments with Investment Mgmt Board (IMB) Per WV FIMS Opening Balance Report																	
Investment Earnings not Posted to WVFIMS As of 6/30/12																	
Investments with Board of Treasury Investments (BTI) Per Opening Balance Report		118,360,497				118,360,497	118,360,497										
Investment Earnings not Posted to WVFIMS As of 6/30/12		11,253				11,253	11,253										
Investments Outside IMB:																	
U.S. Treasury Obligations						()											
U.S. Government Agencies						()											
Other Government Bonds						()											
Corporate Bonds						()											
Corporate Stocks						()											
Mutual Bond Funds						()											
Mutual Stock Funds						()											
Mutual Money Market Funds						()											
Commercial Paper						()											
Bank Investment Contract						()											
Guaranteed Investment Contract						()											
Repurchase Agreements ****						()											
State/Local Gov't Securities						()											
Certificate of Deposits (Negotiable)						()											
Other Investments (describe):						()											
						()											
						()											
Total	0	118,371,750	0	0	0	118,371,750	118,371,750				0	0	0	0			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

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

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 Fax Number (304) 558-4084

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

FORM 8A

GAAP REPORTING FORM - DEPOSITS AND INVESTMENTS RECONCILIATION

Audited Agency **WV Water Pollution Control Revolving Fund**

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	\$ 118,371,750
Less: cash equivalents disclosed as investments	<u>118,371,750</u>
Add: restricted assets disclosed as deposits	<u> </u>
Other (describe) _____	<u> </u>
_____	<u> </u>
_____	<u> </u>

Carrying amount of deposits as disclosed on Form 7 \$ 0

Investments:

Investments as reported on balance sheet	\$ -
Add: restricted assets disclosed as investments	<u> </u>
Add: cash equivalents disclosed as investments	<u>118,371,750</u>
Other (describe) _____	<u> </u>
_____	<u> </u>
_____	<u> </u>

Reported amount of investments as disclosed on Form 8 \$ 118,371,750

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