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**West Virginia Drinking Water Treatment Revolving Fund**

**Financial Statements With Supplementary Information**

**Year Ended June 30, 2008**

**WITH INDEPENDENT AUDITORS' REPORT**

# West Virginia Drinking Water Treatment Revolving Fund

Financial Statements  
Year Ended June 30, 2008

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## INDEPENDENT AUDITORS' REPORT

To the West Virginia Bureau for Public Health and  
the West Virginia Water Development Authority  
Charleston, West Virginia

We have audited the accompanying balance sheet of the West Virginia Drinking Water Treatment Revolving Fund (the Fund), a component unit of the State of West Virginia, as of June 30, 2008, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2008, and the respective changes in financial position, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2008, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 to 6 is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying other financial information on page 18 and pages 19-22 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Fund. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Gibbons & Kawash*

October 13, 2008

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION

Our discussion and analysis of the West Virginia Drinking Water Treatment Revolving Fund's (the "Fund") financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Fund's financial statements, which begin on page 7.

## FINANCIAL HIGHLIGHTS

- The Fund's assets increased by \$5,862,933 or about 9.6%. Because the Fund had no liabilities as of the current or prior year-end, this is also the amount of the increase in the Fund's net assets.
- Expenses related to the administration of the Fund are reported in the separate financial statements of the West Virginia Drinking Water Treatment Revolving Fund Program Set Aside Funds. During the current year, there were no expenses incurred by the Fund. The Fund's change in net assets, therefore, consists solely of revenues, capital grants and contributions generated by the Fund.
- Income of the Fund before capital grants and contributions remained about the same. Administrative fees increased \$52,932. Investment earnings, however, decreased \$42,248 due to the decrease in interest rates.
- Capital grants and contributions from the United States Environmental Protection Agency (the "EPA") decreased by \$4,352,613 from the prior year. Capital grants and contributions from the State of West Virginia (the "State") decreased \$11,240 from the prior year.
- Three new loans were closed during the current year.

## USING THIS REPORT

This report consists of a series of basic financial statements. The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report the Fund's net assets and changes in them. The Fund's net assets – the difference between assets and liabilities – is one way to measure the Fund's financial health or financial position. Over time, increases or decreases in the Fund's net assets are one indicator of whether its financial health is improving or deteriorating.

## THE FUND AS A WHOLE

Assets of the Fund increased \$5,862,933 or about 9.6%. The Fund had no liabilities as of the current or prior year-end. Therefore, the increase in assets is also the increase in the Fund's net assets. Our analysis that follows focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Fund's activities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**Table 1**  
**Net Assets**

	<b>2008</b>	<b>2007</b>
<b>Assets:</b>		
Current assets	\$ 19,036,021	\$ 15,215,971
Loans receivable, less current maturities of \$2,099,644 and \$1,904,130, respectively	<u>47,786,781</u>	<u>45,743,898</u>
Total assets	<u><u>\$ 66,822,802</u></u>	<u><u>\$ 60,959,869</u></u>
 <b>Liabilities:</b>	 <u><u>\$ -</u></u>	 <u><u>\$ -</u></u>
 <b>Net assets:</b>		
Restricted	<u>\$ 66,822,802</u>	<u>\$ 60,959,869</u>
Total net assets	<u><u>\$ 66,822,802</u></u>	<u><u>\$ 60,959,869</u></u>

**Table 2**  
**Changes in Net Assets**

	<b>2008</b>	<b>2007</b>
<b>Revenues:</b>		
<b>Operating revenues:</b>		
Administrative fees	\$ 263,533	\$ 210,601
Interest on loans	241,556	250,639
User fees	<u>34,079</u>	<u>32,392</u>
Total operating revenues	539,168	493,632
<b>Investment earnings:</b>	<u>601,386</u>	<u>643,634</u>
Total revenues	1,140,554	1,137,266
 <b>Operating expenses:</b>	 <u>-</u>	 <u>-</u>
Income before capital grants and contributions	<u>1,140,554</u>	<u>1,137,266</u>
Capital grants and contributions	<u>4,722,379</u>	<u>9,086,232</u>
Total income	<u>5,862,933</u>	<u>10,223,498</u>
Increase in net assets	<u><u>\$ 5,862,933</u></u>	<u><u>\$ 10,223,498</u></u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Most of the increase in the Fund's assets, and therefore its net assets, is attributable to \$4,722,379 of capital grants and contributions received in the current year from EPA in the amount of \$3,076,519 and from the State through the West Virginia Infrastructure and Jobs Development Council in the amount of \$1,645,860. Of the \$3,076,519 received from EPA in the current year, 100% of that amount was for eligible costs reviewed and approved by the Fund and was disbursed as loans to local governmental agencies to assist in drinking water infrastructure projects and is included on the balance sheet in "Loans Receivable." The \$1,645,860 received in advance from the State during the current year, \$3,145,534 of State moneys received for matching purposes in prior years and \$1,782,361 of cumulative investment earnings on those State match amounts, all totalling \$6,573,755, have been committed to drinking water infrastructure projects but have not yet been loaned. These moneys are invested with the West Virginia Board of Treasury Investments and are included on the balance sheet as "Cash Equivalents."

Capital grant income from EPA is recognized after the Fund has reviewed and approved supporting invoices for disbursements of loan proceeds to local governmental agencies and the federal portion of those disbursements has been received by the Fund. The sources of funding for loans to local governmental agencies, besides the capital grant income from EPA, or the federal portion, include State match and revolving loan repayments. As a percentage of total sources of funds disbursed during the current year as loans to local governmental agencies, the federal and State portions, as well as the portion from revolving loan repayments of 74%, 22% and 4%, respectively, were consistent with the prior year even though the total amount of funds disbursed as loans during the current year decreased \$7,839,659. Although loans for three projects totaling \$4,781,838 closed during the current year, only \$1,017,710 of construction costs were incurred and disbursed for those projects during the current year. One of those loans for \$2,750,000 closed just four days prior to year end, so most of the construction costs, and therefore, most of the loan disbursements will occur in future years. Additionally, of the six remaining projects which incurred construction costs during the current year, only one incurred most of its construction costs during the current year. Most of the construction costs of the remaining five projects were incurred in prior years. The federal portion of loans disbursed for eligible costs incurred during the current year decreased \$5,902,421, compared to the federal portion of loans disbursed for eligible costs incurred during the prior year. Capital grant income from EPA decreased \$4,352,613. The difference of \$1,549,808 was the result of the federal portion of loans disbursed in the prior year for which the capital grant income was received in fiscal year 2006.

Total revenues, including operating revenues and investment earnings, of \$1,140,554 were about the same as the prior year. There was a decrease in investment earnings of \$42,248 despite an increase in the amount invested during the current year. The investment of unexpended State match and loan repayments provided 92% of investment earnings. Although \$891,746 of State match was withdrawn during the current year, the current year State match of \$1,645,860 received in December 2007 was invested for over six months in the current year. Additionally, loan repayments invested increased by a net amount of \$1,968,514 (payments of principal and interest on loans of \$2,140,776 less disbursements for new loans of \$172,262). Despite the increase in amounts invested during the current year, interest rates for State match and loan repayments invested steadily decreased during the current year resulting in the decrease in investment earnings. While interest rates during the prior year remained consistent and above 5%, current year interest rates steadily decreased every month beginning in August 2007, when the rate was 5.26%, through June 2008, to the fiscal year low of 2.40%.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

There was a slight decrease in interest on loans of \$9,083. There was only one loan which began accruing interest during the current year and that loan only accrued interest for one month. All other revenue from interest on loans was from loans which began accruing interest in prior years. As repayments continue to be made on those loans, the principal balance outstanding continues to decrease, resulting in less interest earned on those loans, and a corresponding decrease in revenue from interest on loans.

Three loans totalling \$4,781,838 were closed during the current year. The amount disbursed for these loans was \$1,017,710, of which \$655,458 was federal funds, \$189,990 was State match, and \$172,262 was recirculated loan repayments. The amount disbursed during the current year for loans closed in prior years was \$3,122,817, of which \$2,421,061 was federal funds and \$701,756 was State match.

### **COMMITMENTS AND PENDING APPLICATION FOR EPA GRANT**

As of June 30, 2008, \$20,851,360 of drinking water infrastructure projects had been approved to participate in lending activities. Funding for approved projects will come from resources currently available to the Fund as well as federal capital grants and State matches to be paid to the Fund in future periods. The Fund has \$16,698,569 of cash equivalents available for these projects. Additionally, the Fund has \$181,618 of cash equivalents from user fees; however, the purpose for which these funds will be used has not yet been determined.

The Bureau for Public Health intends to submit an application to the EPA for a grant for the Fund for the federal fiscal year 2008 grant period. The application, if approved, would result in an award from the EPA of \$5,678,010. The \$1,645,800 State match has been committed to the Fund in order to secure the federal funds. The total of \$7,323,810, if awarded to the Fund, would be used to provide no-interest or low-interest loans to assist in financing approved drinking water infrastructure projects, including projects approved as of June 30, 2008, as noted above.

### **CONTACTING THE FUND'S MANAGEMENT**

This financial report is designed to provide a general overview of the Fund's finances and to show the Fund's accountability for the money it receives. The Fund is administered by the West Virginia Water Development Authority on behalf of the Bureau for Public Health. If you have questions about this report or need additional information, contact the Executive Director or Secretary/Treasurer, West Virginia Water Development Authority, 180 Association Drive, Charleston, West Virginia 25311; call 304-558-3612, extension 108; or visit the Authority's website ([www.wvwda.org](http://www.wvwda.org)).



# West Virginia Drinking Water Treatment Revolving Fund

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## Balance Sheet June 30, 2008

### Assets:

#### Current assets:

Cash equivalents	\$	16,880,186
User fees receivable		9,523
Administrative fees receivable		23,439
Accrued interest receivable		23,229
Current maturities of loans receivable		<u>2,099,644</u>
Total current assets		19,036,021

Loans receivable, less current maturities 47,786,781

Total assets \$ 66,822,802

### Liabilities and Net Assets:

Commitments (Note 6)

Net assets, restricted \$ 66,822,802

Total liabilities and net assets \$ 66,822,802

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

# West Virginia Drinking Water Treatment Revolving Fund

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**Statement of Revenues, Expenses, and Changes  
In Fund Net Assets  
Year Ended June 30, 2008**

<b>Operating revenues:</b>	
Administrative fees	\$ 263,533
Interest on loans	241,556
User fees	34,079
	<u>539,168</u>
 <b>Operating expenses:</b>	
	<u>-</u>
Operating income	539,168
 <b>Nonoperating revenues:</b>	
Investment income	<u>601,386</u>
Income before capital grants and contributions	<u>1,140,554</u>
 <b>Capital grants and contributions:</b>	
U.S. Environmental Protection Agency	3,076,519
State of West Virginia	<u>1,645,860</u>
	<u>4,722,379</u>
Increase in net assets	5,862,933
Net assets, beginning of year	<u>60,959,869</u>
Net assets, end of year	<u>\$ 66,822,802</u>

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

# West Virginia Drinking Water Treatment Revolving Fund

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## Statement of Cash Flows Year Ended June 30, 2008

### Operating activities:

Cash payments for:	
Loans originated	\$ (4,140,527)
Cash receipts from:	
Principal repayments	1,902,130
Administrative fees	261,037
Interest on loans	238,646
User fees	<u>32,590</u>
Net cash used in operating activities	<u>(1,706,124)</u>

### Capital and related financing activities:

Capital grants and contributions:	
U.S. Environmental Protection Agency	3,076,519
State of West Virginia - Infrastructure and Jobs Development Council	<u>1,645,860</u>
Net cash provided by capital and related financing activities	<u>4,722,379</u>

### Investing activities:

Investment income	<u>601,386</u>
Net increase in cash equivalents	3,617,641
Cash and cash equivalents, beginning of year	<u>13,262,545</u>
Cash equivalents, end of year	<u>\$ 16,880,186</u>

### Reconciliation of operating income to net cash used in operating activities:

Operating income	\$ 539,168
Adjustments to reconcile operating income to net cash used in operating activities:	
Increase in loans receivable	(2,238,397)
Increase in administrative fees receivable	(2,496)
Increase in accrued interest receivable	(2,910)
Increase in user fees receivable	<u>(1,489)</u>
Net cash used in operating activities	<u>\$ (1,706,124)</u>

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

# West Virginia Drinking Water Treatment Revolving Fund

## Notes to Financial Statements

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(1) Description of the Fund

The West Virginia Drinking Water Treatment Revolving Fund (the “Fund”) was established pursuant to the Safe Drinking Water Act (the “Act”) by the State of West Virginia (the “State”) Legislature under Chapter 16, Article 13C of the Code of West Virginia, 1931, as amended, and is administered by the West Virginia Water Development Authority on behalf of the Bureau for Public Health. The purpose of the Act was to establish and implement a State-operated perpetual revolving loan fund to provide no-interest or low-interest rate loans to local governmental agencies and other eligible water providers to assist in financing drinking water infrastructure projects, including but not limited to, treatment, distribution, transmission, storage and extensions; and remain in perpetuity by recirculating the principal repayments and interest earned from the loans. The Fund’s loan programs are designed to provide financial and compliance assistance to eligible local governmental agencies and other eligible water providers in the State in accordance with the Act. Such loan programs provide long-term financing to cover all or a portion of the cost of qualifying projects.

The Fund has received capital grants and contributions from the United States Environmental Protection Agency (the “EPA”), and the State is required to provide an additional twenty percent of the federal award as matching funds in order to qualify for funding. As of June 30, 2008, Congress has authorized EPA to award \$83,564,500 in capitalization grants to the State, of which \$60,971,805 is allocated to the Fund. The State is required to contribute \$16,712,900 in matching funds to the Fund, which are provided through the West Virginia Infrastructure and Jobs Development Council.

These financial statements present the loan activity of the Fund and do not include the activity in any set-aside accounts required by the EPA grants.

(2) 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 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 accounting, revenues are recognized when earned and expenses are recognized when incurred. As permitted by the Governmental Accounting Standards Board’s (“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.

# West Virginia Drinking Water Treatment Revolving Fund

## Notes to Financial Statements (Continued)

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### (2) Significant Accounting Policies (Continued)

#### Basis of Presentation (Continued)

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 between the presentation of amounts reported in these financial statements and the basic financial statements of the State as a result of major fund determination.

#### 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.

#### Cash Equivalents

Cash equivalents consist of investments with the West Virginia Board of Treasury Investments ("BTI") and are recorded at amortized cost which approximates fair value. The State Treasurer deposits cash with the BTI at the direction of the Water Development Authority, and deposits are not separately identifiable as to specific types of securities. Such funds are available to the Fund daily.

#### Loans Receivable

The State operates the Fund as a perpetual revolving loan program, whereby loans made to local governmental agencies or other eligible water providers are funded by the federal capitalization grant and the State matching amount and/or repayments from existing loans. Loan funds are disbursed to the local governmental agencies or other eligible water providers as costs are incurred on approved projects. Interest, if applicable, is not paid during construction but begins accruing three months before the date that local governmental agencies or other eligible water providers begin repayment; and the payment schedule is adjusted for actual amounts disbursed and interest accrued on those disbursements. The loans are secured by a lien on the revenues of the local governmental agencies' or other eligible water providers' water systems and by debt service reserve funds held by the West Virginia Municipal Bond Commission. No provision for uncollectible amounts has been made because management believes that the loans will be repaid according to the loan terms. There are no defaults of principal or interest; however, two local governmental agencies are deficient in their revenue and/or reserve fund balances as of June 30, 2008.

# West Virginia Drinking Water Treatment Revolving Fund

## Notes to Financial Statements (Continued)

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### (2) Significant Accounting Policies (Continued)

#### Administrative Fees

Administrative fees are 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 over the life of the loan concurrently with principal reduction payments by local governmental agencies or other eligible water providers at terms set forth in the applicable loan agreements.

#### Capital Grants and Contributions

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

#### Net Assets

Net assets are reported as restricted. Restrictions of net assets are the result of constraints placed on net asset use which have been imposed by the grantor agency and by law through enabling legislation.

#### Operating Revenues and Expenses

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

### (3) Cash Equivalents

The Water Development Authority, as administrative agent for the Fund, adopted investment guidelines for the Fund. Those guidelines require all investment funds to be invested in accordance with the Act and applicable federal guidelines related to the Fund. In accordance with the Act, the Fund, which is comprised of “moneys appropriated to the Fund by the Legislature, moneys allocated to the State by the federal government expressly for the purpose of establishing and maintaining a drinking water treatment revolving fund and set-aside accounts, all receipts from loans made from the Fund, all income from the investment of moneys held in the Fund, and all other sums designated for deposit to the Fund from any source, public or private” is to be “continued” in the Office of the State Treasurer. The State Treasurer has statutory responsibility for the daily cash management activities of the State’s agencies, departments, boards and commissions and transfers funds to the BTI for investment in accordance with West Virginia Code, policies set by the BTI and by provisions of bond indentures and trust agreements when applicable. The Fund’s cash balances are invested by the BTI in the BTI’s West Virginia Money Market Pool.

# West Virginia Drinking Water Treatment Revolving Fund

## Notes to Financial Statements (Continued)

(3) Cash Equivalents (Continued)

**Credit risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. 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. The BTI, as a whole, has not been rated for credit risk by any organization. The West Virginia Money Market Pool is subject to credit risk. The BTI limits the exposure to credit risk in the West Virginia Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & 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 West Virginia Money Market Pool’s investments (in thousands):

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Investments:				
Commercial paper	P1	A-1	\$ 658,879	27.94%
Corporate bonds and notes	Aaa	AAA	40,000	1.70
	Aa3	AA	20,000	0.85
	Aa2	A	27,000	1.14
	Aa1	AA	71,000	3.01
Total corporate bonds and notes			158,000	6.70
U.S. agency bonds	Aaa	AAA	254,019	10.77
U.S. Treasury bills	Aaa	AAA	406,426	17.23
Negotiable certificates of deposit	P1	A-1	147,000	6.23
U.S. agency discount notes	P1	A-1	212,924	9.03
Money market funds	Aaa	AAA	150,058	6.36
Repurchase agreements (underlying securities):				
U.S. Treasury notes	Aaa	AAA	62,265	2.64
U.S. agency notes	Aaa	AAA	308,898	13.10
Total investments			\$ 2,358,469	100.00%

# West Virginia Drinking Water Treatment Revolving Fund

## Notes to Financial Statements (Continued)

### (3) Cash Equivalents (Continued)

**Concentration of credit risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of the West Virginia Money Market Pool’s investment in a single corporate issuer. The West Virginia Money Market Pool is not exposed to concentration of credit risk. The BTI investment policy prohibits the West Virginia Money Market Pool from investing more than 5% of its assets in any one corporate name or one corporate issue.

**Custodial credit risk** – 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. The West Virginia Money Market Pool is not exposed to custodial credit risk. 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 is invested in the lending agent’s money market fund in the BTI’s name. 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 West Virginia Money Market Pool is subject to interest rate risk.

The overall weighted average maturity of the investments of the West Virginia Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the West Virginia Money Market Pool:

<u>Security Type</u>	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 371,163	1
U.S. Treasury bills	406,425	31
Commercial paper	658,880	29
Certificates of deposit	147,001	95
U.S. agency discount notes	212,924	84
Corporate notes	158,000	21
U.S. agency bonds/notes	254,019	111
Money market funds	<u>150,057</u>	1
	<u>\$ 2,358,469</u>	40

**Foreign currency risk** – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The West Virginia Money Market Pool does not hold interests in foreign currency or interests valued in foreign currency.



# West Virginia Drinking Water Treatment Revolving Fund

## Notes to Financial Statements (Continued)

(4) Loans Receivable

As of June 30, 2008, loans receivable consisted of loans to local governmental agencies or other eligible water providers for qualifying projects which comply with the Act. Loans mature at various intervals through September 1, 2039. The scheduled principal payments on loans maturing in subsequent years are as follows at June 30:

2009	\$	2,099,644
2010		2,306,544
2011		2,353,964
2012		2,363,178
2013		2,380,555
Thereafter		43,201,463
		54,705,348
Less loans closed but not disbursed at June 30, 2008		(4,818,923)
		49,886,425
Less current maturities		(2,099,644)
	\$	47,786,781

(5) Capital Grants and Contributions

The Fund receives grants from EPA as authorized by the Act and matching funds from the West Virginia Infrastructure and Jobs Development Council's Infrastructure Fund. All funds drawn are recorded as capital grants and contributions from EPA and the State. As of June 30, 2008, the cumulative amounts awarded to the Fund from EPA and the contributed matching funds from the State were as follows:

<u>Effective Award Date</u>	<u>EPA Grant</u>	<u>State Match</u>
09/01/98	\$ 9,076,449	\$ 2,511,760
06/11/99	12,965,142	2,917,020
12/10/01	5,352,330	1,551,400
11/09/02	5,374,479	1,557,820
10/23/03	5,556,225	1,610,500
06/16/05	5,522,829	1,600,820
12/01/05	5,729,139	1,660,620
12/04/06	5,716,995	1,657,100
12/19/07	5,678,217	1,645,860
Total	\$ 60,971,805	\$ 16,712,900

# West Virginia Drinking Water Treatment Revolving Fund

## Notes to Financial Statements (Continued)

### (5) Capital Grants and Contributions (Continued)

The following represents the amounts of EPA grants and State matching funds received by the Fund through June 30, 2008:

<u>Through the Year Ended</u>	<u>Federal</u>	<u>State</u>	<u>Total Capital Grants and Contributions</u>
June 30, 2008	<u>\$ 44,439,993</u>	<u>\$ 16,712,900</u>	<u>\$ 61,152,893</u>

### (6) Commitments

The Fund has established a list of local governmental agencies that have formally been recommended by the West Virginia Infrastructure and Jobs Development Council and approved by the Bureau for Public Health to participate in future lending activities consistent with the guidelines of the Act. The following is a list of outstanding commitments as of June 30, 2008:

<u>Local Governmental Agency (County)</u>	<u>Commitment Date</u>	<u>Amount Committed by the Fund</u>
Nettie-Leviassy PSD (Nicholas)	07/19/07	\$ 2,173,000
Petersburg, City of (Grant)	12/22/06	1,700,000
Petersburg, City of (Grant)	12/22/06	3,000,000
Ronceverte, City of (Greenbrier)	02/02/05	2,000,000
Southwestern PSD (Taylor)	01/21/08	6,100,000
Sun Valley PSD (Harrison)	04/12/06	2,400,000
Wardensville, Town of (Hardy)	06/14/06	1,550,000
Weirton, City of (Brooke)	09/18/07	<u>1,928,360</u>
Total		<u>\$ 20,851,360</u>

### (7) Risk Management

The Fund is exposed to various risks of loss related to torts and errors and omissions. Through its participation in the West Virginia Board of Risk and Insurance Management, the Fund obtained coverage for general liability, business interruptions, and errors and omissions. Such coverage is provided in exchange for an annual premium.

# West Virginia Drinking Water Treatment Revolving Fund

## Notes to Financial Statements (Continued)

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(8) User Fees

As part of the settlement in the Public Service Commission of West Virginia case concerning the acquisition of its parent company, American Water Works Company, Inc., West Virginia-American Water Company (WVAWC) agreed with the State's Attorney General to pay a user fee of three percent of the gross revenues received by WVAWC from certain sales of water outside the State. Also as part of the settlement agreement effective January 1, 2003, the user fee is to be paid quarterly.

## **ACCOMPANYING INFORMATION**

# West Virginia Drinking Water Treatment Revolving Fund

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## Schedules of Administrative Fees Activity Year Ended June 30, 2008

### Schedule of Assets and Fund Net Assets

Assets	
Cash equivalents	\$ 1,230,611
Administrative fees receivable	23,439
Total assets	<u>\$ 1,254,050</u>
Restricted net assets	<u>\$ 1,254,050</u>
Total fund net assets	<u>\$ 1,254,050</u>

### Schedule of Administrative Fees Activity in Fund Net Assets

Revenues	
Administrative fees	\$ 263,533
Interest on investments	42,692
Total revenues	<u>\$ 306,225</u>
Expenses	
Administrative expenses	\$ -
Net Income	306,225
Restricted net assets - administrative fees, beginning of year	<u>947,825</u>
Restricted net assets - administrative fees, end of year	<u>\$ 1,254,050</u>

### Schedule of Cash Flows

Net income	\$ 306,225
Adjustments to reconcile net income to net cash provided by administrative fees and interest on investments:	
Increase in administrative fees receivable	<u>(2,496)</u>
Net cash provided by administrative fees and interest on investments	303,729
Cash equivalents, beginning of year	<u>926,882</u>
Cash equivalents, end of year	<u>\$ 1,230,611</u>

See Independent Auditors' Report.

Audited Agency **West Virginia Drinking Water Treatment Revolving Fund**

Per GASB Statement 40 the Institution 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 Institution's investment policy  
 See Footnote (3) to the financial statements.

	Reported Amount Unrestricted	Reported Amount Restricted	Custodial Credit Risk			Reported Amount**	Fair Value	Credit Ratings			Interest Rate Risk - Segmented Time Distribution Investment Maturities (in years)				Foreign Currency Risk			
			Category 1 (Based on reported amounts)	Category 2	Category 3			Standard & Poor's	Moody's	Fitch	Less than 1	1 - 5	6 - 10	More than 10	Currency Type	Maturity	Fair Value	
Investments with Board of Treasury Investments (BTI)																		
<b>Per Opening Balance Report</b>		16,848,034				16,848,034 (F)	16,848,034	AAAm	N/A	N/A								
Investment Earnings not Posted to WVFIMS As of 6/30/08		32,152				32,152	32,152											
<b>Total</b>	<b>0</b>	<b>16,880,186</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>16,880,186</b>	<b>16,880,186</b>				<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>				<b>0</b>

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

Collateral Description on the Repurchase Agreements	Fair Market Value of Collateral
Not Applicable	

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

GAAP REPORTING FORM - DEPOSITS AND INVESTMENTS RECONCILIATION

Audited Agency **West Virginia Drinking Water Treatment 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	\$ 16,880,186
Less: cash equivalents disclosed as investments	<u>(16,880,186)</u>

Carrying amount of deposits as disclosed on Form 7	<u><u>\$ -</u></u>
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Investments:

Investments as reported on balance sheet	\$ -
Add: cash equivalents disclosed as investments	<u>16,880,186</u>

Reported amount of investments as disclosed on Form 8	<u><u>\$ 16,880,186</u></u>
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GAAP REPORTING FORM - TRANSFERS IN/OUT

Audited Agency **West Virginia Drinking Water Treatment Revolving Fund**

Indicate amounts transferred from/to your agency as of June 30, 2008.

<u>WVFIMS Doc. ID</u>	<u>Agency Transferring From</u>	<u>WVFIMS FUND</u>	<u>Agency Transferring To</u>	<u>WVFIMS FUND</u>	<u>Amount</u>
1	2	3	4	5	6
D 1396166	West Virginia Infrastructure and Jobs Development Council	N/A	West Virginia Drinking Water Treatment Revolving Fund	3386	<u>1,645,860</u>
				<b>Total</b>	<b>\$ <u>1,645,860</u></b>

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

Explain Transfers In/Out amounts greater than or equal to \$1,000,000. This transfer represents the State matching requirement of an EPA grant to fund projects consistent with the Drinking Water Act as approved by the West Virginia Infrastructure and Jobs Development Council.



**FEDERAL LOANS OUTSTANDING**

Audited Agency West Virginia Drinking Water Treatment Revolving Fund

Include Capitalized Grants for Clean Water and Drinking Water State Revolving Funds loans that have outstanding balances with continuing compliance requirements. All balances at June 30 should be included.

<u>CFDA #</u>	<u>Program</u>	<u>Amount</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds	<u>\$ 4,513,783</u>
	<b>Total</b>	<b><u>\$ 4,513,783</u></b>

**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**

The West Virginia Bureau for Public Health and  
the West Virginia Water Development Authority  
Charleston, West Virginia

We have audited the financial statements of the West Virginia Drinking Water Treatment Revolving Fund (the Fund) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

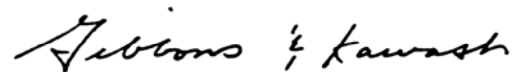
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

### Compliance and Other Matters

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

We noted certain matters that we reported to management of the Fund in a separate letter dated October 13, 2008.

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

A handwritten signature in black ink that reads "Gibson & Kawash". The signature is written in a cursive, flowing style.

October 13, 2008