

Audited Financial Statements

West Virginia Drinking Water Treatment Revolving Fund

Year Ended June 30, 2011



Audited Financial Statements

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

Year Ended June 30, 2011

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INDEPENDENT AUDITOR'S 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, 2011, 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; 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 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, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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 financial statements that collectively comprise the Fund's financial statements as a whole. The other accompanying information as of and for the year ended June 30, 2011, as listed in the table of contents on page 19, is presented for purposes of additional analysis and is not a required part of the financial statements. The other accompanying information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. 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 as a whole.

J. Williams & Kanash, A.C.

October 13, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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, 2011. Please read it in conjunction with the Fund's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

- Under the American Recovery and Reinvestment Act (ARRA), the Drinking Water Treatment Revolving Fund was awarded \$19.5 million, of which \$19.25 million was to be distributed through the drinking water revolving loan program. \$11.2 million was distributed in the current fiscal year. Of that amount, \$11.1 was provided as principal forgiveness loans. Under the ARRA program at least 50% of the \$19,500,000 was required to be provided in the form of principal forgiveness loans. As of June 30, 2011, the Fund had closed fourteen (14) projects receiving ARRA funding. \$18,563,540 of ARRA funding has been disbursed in total over the life of the program.
- The Fund's assets increased by \$16,842,159 or about 20%. This is largely due to an increase in the volume of loans disbursed during the fiscal year. 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.
- Consistent with prior year, there was a large operating expense incurred due to the provisions of ARRA funding. Loan forgiveness from total ARRA loans disbursed totaling \$11,102,187 was incurred by the fund during the fiscal year. The Fund's change in net assets, therefore, consists of total revenues, less operating expenses and capital grants and contributions.
- Capital grant and contribution awards from the United States Environmental Protection Agency (the "EPA") and capital grant and contribution awards from the State of West Virginia (the "State") continue to provide the necessary resources to the Fund to carry out its mission. Federal and state awards for the Fund are described in footnote 5 in the accompanying financial statements. Capital grants and contributions received and disbursed from the EPA increased by \$10,221,852 from the prior year. In the past two fiscal years there was an increase in the amount awarded to the Program from the EPA. However, in upcoming fiscal years the amounts to be awarded are expected to return to historical levels.
- Five (5) new loans were closed during the current year. Also, there are seventeen (17) additional loans that are still under construction that were closed in prior years, seven (7) of which are substantially complete.

USING THIS REPORT

This report consists of a series of 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, which is 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
(Unaudited)

THE FUND AS A WHOLE

Assets of the Fund increased \$16,842,159 or about 20%. The Fund had no liabilities as of the current or prior year ended June 30. 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.

Table 1
Net Assets

	2011	2010
Assets:		
Current assets	\$ 23,825,360	\$ 21,376,957
Loans receivable, less current maturities, net	<u>77,321,458</u>	<u>62,927,702</u>
Total assests	<u>\$ 101,146,818</u>	<u>\$ 84,304,659</u>
Net assets:		
Restricted	<u>\$ 101,146,818</u>	<u>\$ 84,304,659</u>

Table 2
Changes in Net Assets

	2011	2010
Revenues:		
Operating revenues:		
Administrative fees	\$ 350,410	\$ 323,434
Interest on loans	298,915	264,884
User fees	<u>41,732</u>	<u>38,260</u>
Total operating revenues	691,057	626,578
Investment earnings	<u>35,123</u>	<u>24,585</u>
Total revenues	726,180	651,163
Operating expenses	<u>(11,102,187)</u>	<u>(7,361,263)</u>
Income before capital grants and contributions	<u>(10,376,007)</u>	<u>(6,710,100)</u>
Capital grants and contributions	<u>27,218,166</u>	<u>16,996,314</u>
Increase in net assets	<u>\$ 16,842,159</u>	<u>\$ 10,286,214</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
(Unaudited)

THE FUND AS A WHOLE (Continued)

Most of the increase in the Fund's assets, and therefore its net assets, is attributable to \$27,218,166 of capital grants and contributions received in the current year from the EPA in the amount of \$25,588,966 and the State match through the West Virginia Infrastructure and Jobs Development Council in the amount of \$1,629,200. Of the \$25,588,966 received from the EPA in the current year, \$11,102,187 was given with an agreed 100% loan forgiveness feature. 100% of the EPA 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 \$1,629,200 received from the State during the current year, \$319,762 of State moneys received for matching purposes in prior years but not yet spent and \$1,878,720 of cumulative investment earnings on those State match amounts, all totaling \$3,827,682, have been committed to drinking water infrastructure projects but have not yet been expended. 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 the 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 the EPA, or the federal portion, include State match, revolving loan repayments, and investment earnings which have increased \$9,869,599 from prior year. Five (5) loans closed during the current year, totaling \$21,340,750. One (1) loan closed in the second quarter, two (2) in the third quarter, and two (2) in the fourth quarter. Capital grant income from the EPA increased \$10,221,852.

Total revenues, including operating revenues and investment earnings totaled \$726,180. This was an increase of \$75,017 from prior year. This was attributed to an increase in administrative earnings of \$26,976 over the prior year as well as an increase in interest on loans of \$34,031 over the prior year. These increases are primarily due to an increase in loans closed during the prior year.

The five loans that closed in the current year totaled \$21,340,750. The amounts disbursed for these loans were \$1,963,741 of which \$1,505,785 represented federal funds, \$436,456 represented state match and \$21,500 represented re-circulated loan repayments. The amount disbursed during the current year for loans closed in prior years totaled \$28,661,327 of which \$11,202,187 represented federal ARRA funds, \$12,836,575 represented federal funds, \$3,614,184 represented State match, and \$1,008,381 represented re-circulated loan repayments. The sum of all disbursements for the years ended June 30, 2011 and 2010 was \$30,625,068 and \$20,755,469, respectively.

COMMITMENTS AND PENDING APPLICATION FOR EPA GRANT

As of June 30, 2011, \$18.6 million has been awarded but not yet disbursed for drinking water infrastructure projects approved to participate in lending activities. Funding for approved projects will come from resources currently available to the Fund such as loan repayments as well as federal capital grants and State matches to be paid to the Fund in future periods. As of the year ended June 30, 2011, the Fund has \$18,527,010 in cash equivalents available for these projects. Additionally, the Fund has \$301,850 of cash equivalents from user fees obtained from a State Settlement with the West Virginia American Water Company in 2004. The purpose for which these funds will be used has not yet been determined.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
(Unaudited)

COMMITMENTS AND PENDING APPLICATION FOR EPA GRANT (Continued)

The West Virginia Bureau for Public Health intends to submit an application to the EPA for a grant for the Fund for the federal fiscal year 2012 grant period. The application, if approved, would result in an award from the EPA of \$8,248,520. The \$1,853,600 State match has been committed to the Fund in order to secure the federal funds. The total federal funds of \$6,394,920, if awarded to the Fund, would be used to provide forgivable, no-interest or low-interest loans to assist in financing approved drinking water infrastructure projects, including projects approved as of June 30, 2011, as noted above.

The EPA Capitalization Grant awarded but not yet disbursed during fiscal year 2011 as well as the potential grant award for fiscal year 2012 contain new provisions which require that thirty (30) percent of each grant must be provided to eligible water system loan recipients in the form of grants, negative interest, or principal forgiveness. The principal forgiveness will be provided to the loan recipients as a separate loan agreement with a debt service schedule showing the principal amount owed and the corresponding principal forgiveness amount. The principal forgiveness requirement is expected to remain a grant condition in the near future. While this new provision will not directly enhance the Fund, the plan is that it will assist in meeting the Fund's goal of providing clean water infrastructure to West Virginia residents.

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 West Virginia Bureau for Public Health. If you have questions about this report or need additional information, contact the Executive Director of the West Virginia Water Development Authority, 180 Association Drive, Charleston, West Virginia 25311; call 304-414-6500 or visit the Authority's website (www.wvwda.org).

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

BALANCE SHEET

June 30, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$ 18,828,860
User fees receivable	10,207
Administrative fees receivable	31,330
Accrued interest receivable	42,139
Current maturities of loans receivable	<u>4,912,824</u>
Total current assets	23,825,360

Loans receivable, less current maturities
(net of principal forgiveness of \$18,463,451)

77,321,458

Total assets

\$ 101,146,818

LIABILITIES AND NET ASSETS

Net assets, restricted

\$ 101,146,818

Total liabilities and net assets

\$ 101,146,818

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

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2011

Operating revenues:	
Administrative fees	\$ 350,410
Interest on loans	298,915
User fees	<u>41,732</u>
	<u>691,057</u>
Operating expense:	
Grant expense - principal forgiveness	<u>(11,102,187)</u>
Operating loss	(10,411,130)
Nonoperating revenues:	
Investment income	<u>35,123</u>
Loss before capital grants and contributions	<u>(10,376,007)</u>
Capital grants and contributions:	
U.S. Environmental Protection Agency	25,588,966
State of West Virginia	<u>1,629,200</u>
	<u>27,218,166</u>
Increase in net assets	16,842,159
Net assets, beginning of year	<u>84,304,659</u>
Net assets, end of year	<u><u>\$ 101,146,818</u></u>

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

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

STATEMENT OF CASH FLOWS

Year Ended June 30, 2011

Operating activities:	
Cash payments for:	
Loans originated	\$ (30,625,068)
Cash receipts from:	
Principal repayments	3,211,890
Administrative fees	347,095
Interest on loans	287,130
User fees	<u>50,457</u>
Net cash used in operating activities	<u>(26,728,496)</u>
Capital and related financing activities:	
Capital grants and contributions received:	
U.S. Environmental Protection Agency	25,588,966
State of West Virginia, Infrastructure and Jobs Development Council	<u>1,629,200</u>
Net cash provided by capital and related financing activities	<u>27,218,166</u>
Investing activities:	
Investment income	<u>35,123</u>
Net increase in cash equivalents	524,793
Cash and cash equivalents, beginning of year	<u>18,304,067</u>
Cash equivalents, end of year	<u><u>\$ 18,828,860</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (10,411,130)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Increase in loans receivable	(16,310,991)
Increase in administrative fees receivable	(3,315)
Increase in accrued interest receivable	(11,785)
Decrease in user fees receivable	<u>8,725</u>
Net cash used in operating activities	<u><u>\$ (26,728,496)</u></u>

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

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

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), 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, design, 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 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, which 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, 2011, Congress has authorized the EPA to award \$141,158,500 in capitalization grants to the State, of which \$108,743,991 is allocated to the fund. The state is required to contribute \$24,331,700 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, interpretations and/or accounting standards updates issued after November 30, 1989, unless the GASB specifically adopts such FASB statements, interpretations or accounting standards updates.

The Fund is a component unit of the State and as such is included in the State's basic financial statements as a proprietary fund and business type activity blended component unit 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.

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)**2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**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 and Cash Equivalents

Cash and cash equivalents include 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, including amounts awarded under the American Recovery and Reinvestment Act of 2009 (ARRA), 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. According to the terms as set forth in the ARRA, management believes that it is probable that certain of the local government agencies will fulfill specific ARRA loan requirements allowing for principle forgiveness, and as such a 100% principal forgiveness valuation has been made for these qualifying loans as of June 30, 2011. As of June 30, 2011, with the exception of the ARRA funds, no provision for uncollectible accounts has been made because management believes that the loans will be repaid according to the loan terms. There are no principal or interest payments in default.

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 principle reduction payments by local governmental agencies or other eligible water providers at terms set forth in the applicable loan agreements.

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS (Continued)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Grants and Contributions

Amounts received from the 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 AND 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 or deposited with the State Treasurer.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The WV Money Market Pool has been rated AAAM by the 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 following table provides information on the credit rating of the West Virginia Money Market Pool’s investments:

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)**3 - CASH AND CASH EQUIVALENTS (Continued)**

Security Type	Credit Rating		Carrying Value in Thousands	Percent of Pool Assets
	Moody's	S&P		
Commercial paper	P-1	A-1	\$ 1,069,576	35.43 %
Corporate bonds and notes	Aa1	AA	10,000	0.33
	Aa2	AA	33,000	1.09
	Aa3	AA	31,000	1.03
	Aa3	A	<u>53,000</u>	<u>1.76</u>
Total corporate bonds and notes			127,000	4.21
U.S. agency bonds	Aaa	AAA	170,788	5.66
U.S. treasury notes*	Aaa	AAA	298,345	9.88
U.S. treasury bills*	Aaa	AAA	231,051	7.65
Negotiable certificates of deposit	P-1	A-1	140,000	4.64
U.S. agency discount notes	P-1	A-1	697,164	23.10
Money market funds	Aaa	AAAm	200,279	6.64
Repurchase agreements (underlying securities):				
U.S. treasury notes*	Aaa	AAA	69,557	2.30
U.S. agency notes	Aaa	AAA	<u>14,800</u>	<u>0.49</u>
Total repurchase agreements			<u>84,357</u>	<u>2.79</u>
			<u>\$ 3,018,560</u>	<u>100.00 %</u>

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

Concentration of credit risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a pool's investment in a single corporate issuer. The BTI investment policy prohibits the West Virginia Money Market Pool from investing more than 5% of their 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. 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. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)**3 - CASH AND CASH EQUIVALENTS (Continued)**

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The 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 (WAM) for the various asset types in the West Virginia Money Market Pool:

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 84,357	1
U.S. treasury notes	298,345	137
U.S. treasury bills	231,051	34
Commercial paper	1,069,576	35
Certificates of deposit	140,000	58
U.S. agency discount notes	697,164	45
Corporate bonds and notes	127,000	20
U.S. agency bonds/notes	170,788	66
Money market funds	200,279	1
	\$ 3,018,560	46

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.

4 - LOANS RECEIVABLE

As of June 30, 2011, loans receivable consisted of loans to local governmental agencies (LGA's) or other eligible water provide for qualifying projects which comply with the Act. During the year the Fund was awarded \$11,202,187 of ARRA funds which were disbursed to LGA's, of which \$11,102,187 were disbursed as loans with a provision that the principle outstanding will be forgiven over various periods through June 2049. Accordingly a valuation account for expected principal forgiveness has been recorded as of June 30, 2011 for the total allotment of qualifying ARRA funds. During the year, the Fund disbursed \$19,422,881 of Non-ARRA funds.

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)**4 - LOANS RECEIVABLE (Continued)**

Loans receivable consisted of the following at June 30, 2011:

Non-ARRA loans	\$ 82,134,282
ARRA loans	<u>18,563,451</u>
Total loans outstanding	100,697,733
Less:	
Allowance for expected principal forgiveness	18,463,451
Current maturities	<u>4,912,824</u>
Total loans receivable, net of current maturities and principle forgiveness	<u>\$ 77,321,458</u>

Non-ARRA loans mature at various intervals through September 2041 and ARRA loans will be forgiven over various periods through June 2049. The scheduled principal payments on non-ARRA loans maturing in subsequent years and expected annual ARRA loan principal forgiveness in future years are as follows at June 30:

2012	\$ 4,912,824
2013	6,037,876
2014	6,438,362
2015	6,503,386
2016	6,542,161
Thereafter	<u>94,454,757</u>
	124,889,366
Less loans closed but not disbursed at June 30, 2011	<u>24,191,633</u>
	100,697,733
Less current maturities	<u>4,912,824</u>
	95,784,909
Less allowance for expected principal forgiveness	<u>18,463,451</u>
Total loans receivable, net of current maturities and principal forgiveness	<u>\$ 77,321,458</u>

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)**5 - CAPITAL GRANTS AND CONTRIBUTIONS**

The Fund is awarded grants from the EPA as authorized by the Act and the State provides matching funds from the West Virginia Infrastructure and Jobs Development Council's Infrastructure Fund. Funds drawn are recorded as capital grants and contributions from the EPA and the State. As of June 30, 2011, the cumulative amounts awarded to the Fund from the 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>
09/11/1998	\$ 9,076,449	\$ 2,511,760
06/11/1999	12,965,142	2,917,020
12/10/2001	5,352,330	1,551,400
11/09/2002	5,374,479	1,557,820
10/23/2003	5,556,225	1,610,500
06/16/2005	5,522,829	1,600,820
12/01/2005	5,729,139	1,660,620
12/04/2006	5,716,995	1,657,100
12/19/2007	5,678,217	1,645,860
11/07/2008	6,089,460	1,645,800
06/15/2009*	15,350,000	-
08/03/2009*	3,900,000	-
10/01/2009	5,620,740	1,629,200
07/29/2010	7,345,036	1,629,200
09/22/2010	<u>9,466,950</u>	<u>2,714,600</u>
Total	<u>\$ 108,743,991</u>	<u>\$ 24,331,700</u>

* - ARRA funds did not require State match

The following represents the amounts of EPA grants and State matching funds received by the Fund through June 30, 2011:

<u>Cumulative Through</u>	<u>Federal</u>	<u>State</u>	<u>Total Capital Grants and Contributions</u>
June 30, 2011	<u>\$ 90,140,787</u>	<u>\$ 21,617,100</u>	<u>\$ 111,757,887</u>

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)**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, 2011:

<u>Local Governmental Agency (County)</u>	<u>Commitment Date</u>	<u>Amount Committed by the Fund</u>
Marshall County PSD #4 (Marshall)	12/13/10	\$ 260,000
Beverly, Town of (Randolph)	03/15/11	\$ 3,800,000
Oakland PSD (Brooke)	04/21/11	\$ 3,514,455
Wellsburg, City of (Brooke)	05/19/11	\$ 2,285,000
St. Mary's, City of (Pleasants)	06/01/11	<u>4,420,000</u>
Total		<u>\$ 14,279,455</u>

In addition, the Fund has awarded amounts not yet disbursed of approximately \$18,603,204 for projects previously approved and in various stages of completion.

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. There were no changes in coverage or claims in excess of coverage for the year ended June 30, 2011.

8 - USER FEE

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.

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)**9 – SUBSEQUENT EVENT**

On August 5, 2011, Standard and Poor's ("S&P") downgraded the rating of the United States of America Long-Term debt from AAA to AA+. At the same time, S&P downgraded the rating on U.S. government agencies debt to AA+. As described in footnote 3, the Fund, in accordance with West Virginia Code, invests cash balances with the BTI's West Virginia Money Market Pool (the Pool). The Pool includes these obligations of the United States and U.S. government agencies.

The Pool holds short-term securities and long-term securities with short duration and maintains a principal stability fund rating of AAAM by S&P. On August 8, 2011, S&P issued a press release stating that the funds to which it has assigned principal stability fund ratings are unaffected by the lowering of the long-term rating on the United States of America. The lowering of the long-term debt rating also does not directly affect the rating of short-term securities. The impact of the downgrade, if any, to the accompanying financial statements has not been determined by management.

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

SCHEDULES OF ADMINISTRATIVE FEES ACTIVITY

June 30, 2011

Schedule of assets and fund net assets

Assets:

Cash and cash equivalents	\$ 2,205,555
Administrative fees receivable	<u>31,330</u>
Total assets	<u>\$ 2,236,885</u>

Restricted net assets	<u>\$ 2,236,885</u>
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Total fund net assets	<u>\$ 2,236,885</u>
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Schedule of administrative fees activity in fund net assets

Revenues:

Administrative fees	\$ 350,410
Interest on investments	<u>3,532</u>
Total revenues	<u>\$ 353,942</u>

Expenses:

Administrative expense	<u>\$ -</u>
Net income	353,942

Restricted net assets - administrative fees, beginning of year	<u>1,882,943</u>
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Restricted net assets - administrative fees, end of year	<u>\$ 2,236,885</u>
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Schedule of cash flows

Net income	\$ 353,942
Adjustments to reconcile net income to net cash provided by administrative fees and interest on investments:	
Increase in administrative fees receivable	<u>(3,315)</u>
Net cash provided by administrative fees and interest on investments	350,627
Cash and cash equivalents, beginning of year	<u>1,854,928</u>
Cash and cash equivalents, end of year	<u>\$ 2,205,555</u>

See Independent Auditor's Report.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE
CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLVING FUNDS AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
THE PROGRAM-SPECIFIC AUDIT OPTION UNDER OMB CIRCULAR A-133**

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

Compliance

We have audited the West Virginia Drinking Water Treatment Revolving Fund's (the Fund) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on its Capitalization Grants for Drinking Water State Revolving Funds for the year ended June 30, 2011. 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 Environmental Protection Agency's Capitalization Grants for Drinking Water State Revolving Funds occurred. An audit includes examining on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that 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 Fund complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Capitalization Grants for Drinking Water State Revolving Funds for the year ended June 30, 2011.

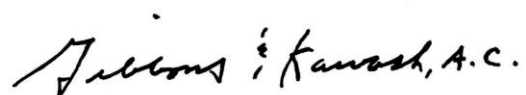
Internal Control over Compliance

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 the requirements that could have a direct and material effect on its Capitalization Grants for Drinking Water State Revolving Funds to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on 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 Fund's internal control over compliance.

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 Fund's fiscal agent, the State of West Virginia, and the 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 "Jellison & Kanash, A.C." The signature is written in a cursive, flowing style.

October 13, 2011