



West Virginia Drinking Water Treatment Revolving Fund

Financial Report

June 30, 2024

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED).....	4
FINANCIAL STATEMENTS	
Statement of Net Position	8
Statement of Revenues, Expenses, and Changes in Fund Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements.....	11
ACCOMPANYING INFORMATION	
Schedules of Administrative Fees Activity.....	19
Schedule of Expenditures of Federal Awards.....	20
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	21
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	23
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	26

INDEPENDENT AUDITOR'S REPORT

To the West Virginia Department of Environmental Protection and
the West Virginia Water Development Authority
Charleston, West Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the West Virginia Drinking Water Treatment Revolving Fund (the Fund), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

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, 2024, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The accompanying information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis, and is also not a required part of the basic financial statements. The accompanying information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2024, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
October 4, 2024

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

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, 2024. Please read it in conjunction with the Fund's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- The United States Environmental Protection Agency (the "EPA") authorized the Fund to issue principal forgiveness loans. These loans, which are issued to certain local government agencies or other eligible water providers will be forgiven on the 30th day of June in the fiscal year coinciding with the disbursement. These loans are deemed no longer outstanding after the last loan disbursement is forgiven. Consistent with the prior year, a large operating expense, grant expense – principal forgiveness, was incurred due to the provisions of the EPA principal forgiveness loans. Total principal forgiveness loans disbursed during the fiscal year totaled \$5,788,219. The Fund's change in net position, therefore, consists of total revenues, less operating expenses and capital grants and contributions.
- The Fund's assets increased by \$25,327,155 or 11.2%. This is largely due to an increase in the investment of funds available for projects, grants receivable, and an increase in loans receivable. The Fund's liabilities increased by \$6,084,992 due to State Match funds received in June for FY2025, which is reported as unearned revenue. The Fund's net position increased by \$19,242,163 or 8.5%.
- The Fund's revenues increased by \$1,359,843 or approximately 36%. This is primarily due to an increase in investment earnings of \$1,015,350 or 46.17% and interest on loans of \$311,040 or 34.7%.
- Capital grant and contribution awards from the EPA and 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 from the EPA and the State decreased by \$438,751 from the prior year.
- Eighteen (18) new loans were closed during the current year. Also, there are twenty-three (23) additional loans that are still under construction that were closed in prior years seven (7) of which are substantially complete but still have a remaining loan balance.

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

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

USING THIS REPORT

This report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Fund Net Position report the Fund's net position and changes in net position. The Fund's net position, 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 position is one indicator of whether its financial health is improving or deteriorating.

THE FUND AS A WHOLE

Assets of the Fund increased \$25,327,155 or 11.2%. The Fund has \$6,175,974 in liabilities as of the current fiscal year which is an increase of 6,688.1% from the year ended June 30, 2023. This increase in assets and liabilities represents the increase in the Fund's net position. Our analysis that follows focuses on the net position (Table 1) and changes in net position (Table 2) of the Fund's activities.

Table 1
Statement of Net Position

	2024	2023
Assets		
Current assets	\$ 88,022,499	\$ 68,736,713
Loans receivable, less current maturities, net	164,227,715	158,186,346
Total assets	252,250,214	226,923,059
Liabilities		
Current liabilities	6,175,974	90,982
Net position		
Restricted	<u>\$ 246,074,240</u>	<u>\$ 226,832,077</u>

(Continued)

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

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

THE FUND AS A WHOLE (Continued)

Table 2
Statement of Revenues, Expenses, and Changes in Fund Position

	2024	2023
Revenues:		
Operating revenues:		
Administrative fees	\$ 771,793	\$ 735,340
Interest on loans	1,207,113	896,073
Total operating revenues	1,978,906	1,631,413
Investment earnings	3,219,270	2,203,920
Total revenues	5,198,176	3,835,333
Operating expenses	(6,711,929)	(3,018,087)
Income (loss) before capital grants and contributions	(1,513,753)	817,246
Capital grants and contributions	20,755,916	21,194,667
Increase in net position	\$ 19,242,163	\$ 22,011,913

Most of the increase in the Fund's assets and net position is attributable to the State match through the West Virginia Infrastructure and Jobs Development Council in the amount of \$3,093,100. \$0 were received from the EPA in the current year, but payments to be paid from EPA funds, totaling \$17,662,816 were made during the year. Of these payments, \$5,383,426 were principal-forgiveness loans. All of the \$3,093,100 received from the State during the current year in matching funds were disbursed. In addition, \$9,299,806 in cumulative investment earnings on current and previous State match and repayment amounts 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."

The Fund's liabilities are attributable to the year's administrative expenses that were payable at the end of the fiscal year.

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. Capital grant income from the EPA decreased \$311,251 from the prior year. The sources of funding for loans to local governmental agencies, besides the capital grant income from the EPA, and the State match, include revolving loan repayments, and investment earnings, which have increased \$1,831,513.18 from prior year. Eighteen (18) loans closed during the current year, totaling \$38,220,197. Three (3) loan closed in the first quarter, one (1) in the second quarter, three (3) closed in the third quarter, and eleven (11) closed in the fourth quarter.

Total revenues, including operating revenues and investment earnings equaled \$5,198,176. This was an increase of \$1,362,843 from prior year. This was attributed primarily to an increase in investment earnings of \$1,015,350 from the prior year.

(Continued)

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

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

THE FUND AS A WHOLE (Continued)

The eighteen loans that closed in the current year totaled \$38,220,197. The amounts disbursed for these loans totaled \$6,534,248 of which \$6,094,987 represented federal funds, including \$2,597,419 of those funds having principal forgiveness features, and \$439,261 represented State match, including \$291,224 of those funds having principal forgiveness features. The amount disbursed during the current year for loans closed in prior years totaled \$14,338,867 of which \$11,567,828 represented federal funds, including \$2,786,007 with principle forgiveness features, \$2,673,639 represented State match, including \$107,457 with principle forgiveness features, and \$97,400 represented proceeds from loan repayment, including \$6,113 of those having principal forgiveness features. The sum of all disbursements for the years ended June 30, 2024 and 2023, was \$20,873,115 and \$29,423,520 respectively.

COMMITMENTS AND PENDING APPLICATION FOR EPA GRANT

As of June 30, 2024, the Fund had outstanding binding commitments to loan to qualified recipients of \$39,383,651 and a \$34,413,352 grant awarded by the EPA but not yet disbursed for approved drinking water infrastructure projects. Funds 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, 2024 the Fund has \$61,189,979 in cash equivalents available for these projects. Additionally, the Fund has \$30,753 of cash equivalents from user fees obtained from a State Settlement with the West Virginia American Water Company in 2004. These funds will be used for future drinking water infrastructure projects.

The West Virginia Department of Environmental Protection (WV DEP) submitted an application to the EPA for a grant for the Fund for the fiscal year 2024 grant period and is currently awaiting approval of an award in the amount of \$27,646,000. The \$5,529,200 State match has been received by the Fund in order to secure the federal funds. The total of \$33,175,200, awarded to the Fund, will be used to provide no-interest or low-interest traditional or principal forgiveness featured loans to assist in financing approved drinking water infrastructure projects.

The 2023 EPA Capitalization Grant awarded for fiscal year 2023 contained a provision which requires that not less than fourteen (14) percent be provided to eligible water system loan recipients in the form of grants, negative interest, or principal forgiveness. Furthermore, in a state in which such an emergency declaration has been issued, the recipient may use more than fourteen (14) percent of the funds made available for capitalization grants to provide additional subsidy to eligible recipients. The principal forgiveness will be provided to the loan recipients as a separate loan agreement. The principal forgiveness requirement is expected to remain a grant condition in the near future. While this provision will not directly enhance the Fund, the plan is that it will assist in meeting the Fund's goal of providing safe drinking 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 WV DEP. If you have questions about this report or need additional information, contact the Executive Director or the Chief Financial Officer of the West Virginia Water Development Authority, 1009 Bullitt Street, Charleston, West Virginia 25301; call 304-414-6500 or visit the Authority's website (www.wvwda.org).

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

STATEMENT OF NET POSITION

June 30, 2024

ASSETS

CURRENT ASSETS

Cash and cash equivalents (Note 3)	\$ 61,220,732
Administrative fees receivable	64,030
Accrued interest receivable	102,605
Current maturities of loans receivable (Note 4)	8,972,316
Grants receivable	<u>17,662,816</u>
Total current assets	<u>88,022,499</u>

LOANS RECEIVABLE, less current maturities	<u>164,227,715</u>
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Total assets	<u><u>\$ 252,250,214</u></u>
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LIABILITIES

CURRENT LIABILITIES

Accounts payable, related party (Note 8)	\$ 646,774
Unearned revenue	<u>5,529,200</u>
Total current liabilities	<u><u>\$ 6,175,974</u></u>

NET POSITION

Net position, restricted	<u><u>\$ 246,074,240</u></u>
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The Notes to the Financial Statements are an integral part of these statements.

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2024

OPERATING REVENUES	
Administrative fees	\$ 771,793
Interest on loans	1,207,113
	<u>1,978,906</u>
OPERATING EXPENSE	
Administrative expense	923,710
Grant expense - principal forgiveness	5,788,219
	<u>6,711,929</u>
Operating loss	(4,733,023)
NONOPERATING REVENUES (EXPENSES)	
Investment income	<u>3,219,270</u>
Loss before capital grants and contributions	<u>(1,513,753)</u>
CAPITAL GRANTS AND CONTRIBUTIONS	
U.S. Environmental Protection Agency (Note 5)	17,662,816
State of West Virginia, Infrastructure and Jobs Development Council (Note 5)	3,093,100
	<u>20,755,916</u>
Increase in net position	19,242,163
NET POSITION, beginning	<u>226,832,077</u>
NET POSITION, ending	<u>\$ 246,074,240</u>

The Notes to the Financial Statements are an integral part of these statements.

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

STATEMENT OF CASH FLOWS Year Ended June 30, 2024

OPERATING ACTIVITIES

Cash payments for:	
Loans originated	\$ (20,873,115)
Administrative expenses	(367,918)
Cash receipts from:	
Principal repayments	8,680,911
Administrative fees	770,339
Interest on loans	1,185,518
Net cash and cash equivalent used in operating activities	<u>(10,604,265)</u>

CAPITAL AND FINANCING ACTIVITIES

Capital grants and contributions received:	
State of West Virginia, Infrastructure and Jobs Development Council	<u>8,622,300</u>

INVESTING ACTIVITIES

Investment income	<u>3,219,270</u>
Net increase in cash and cash equivalents	1,237,305

CASH AND CASH EQUIVALENTS, beginning	<u>59,983,427</u>
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CASH AND CASH EQUIVALENTS, ending	<u><u>\$ 61,220,732</u></u>
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Reconciliation of operating income to net cash and cash equivalents
used in operating activities:

Operating loss	\$ (4,733,023)
Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities:	
Increase in loans receivable	(6,403,985)
Increase in administrative fees receivable	(1,454)
Increase in accrued interest receivable	(21,595)
Decrease in accounts payable	<u>555,792</u>
Net cash and cash equivalents used in operating activities	<u><u>\$ (10,604,265)</u></u>

SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES

Current year principal forgiveness	<u><u>\$ 5,788,219</u></u>
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The Notes to the Financial Statements are an integral part of these statements.

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

Note 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 (the Authority) on behalf of the West Virginia Department of Environmental Protection (WV DEP). 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 programs are designed to provide financial assistance in the form of no-interest, low-interest, and forgivable loans 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, 2024, Congress has authorized the EPA to award \$369,768,858 in capitalization grants to the State, of which \$288,184,509 is allocated to the Fund. The State is required to contribute \$51,715,657 in matching funds to the Fund, which are provided through the West Virginia Infrastructure and Jobs Development Council. The 2024 Capitalization Grant State Match of \$5,529,200 has been received by the Fund and is awaiting approval of the EPA grant award.

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.

Note 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, these 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.

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

(Continued)

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

Note 2. Significant Accounting Policies (Continued)

Cash and cash equivalents

Cash and cash equivalents include deposits with the State Treasurer's Office and investments with the West Virginia Board of Treasury Investments ("BTI"), which are recorded at amortized cost, which approximates fair value. The State Treasurer deposits cash with the BTI at the direction of the 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 a 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.

The Fund issues loans eligible for principal forgiveness from funds provided under EPA grants received by the Fund. These loans, which are issued to certain local government agencies or other eligible water providers, will be forgiven on the 30th day of June in the fiscal year coinciding with the disbursement. These loans, which are secured by principal only bonds issued by the loan recipient and held in the name of the Authority and the WV DEP on behalf of the Fund, are to be deemed no longer outstanding after the last loan disbursement is forgiven.

As of June 30, 2024, 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.

Capital grants and contributions

Amounts received from the EPA and the State for the continued capitalization of the Fund are recorded as soon as all eligibility requirements imposed by the provider have been met.

(Continued)

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

Note 2. Significant Accounting Policies (Continued)

Net position

Net position is reported as restricted. Restricted net position is the result of constraints placed on its 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.

Note 3. Cash and Cash Equivalents

The 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, 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.

Cash and cash equivalents includes balances invested in the BTI of \$61,220,732 at June 30, 2024.

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 itself has not been rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the West Virginia Money Market Pool by requiring all long-term corporate debt be rated A+ or higher by Standard & Poor’s (or its equivalent) and short-term corporate debt be rated at A-1 or higher by Standard & Poor’s (or its equivalent). The following table provides information on the credit ratings of the West Virginia Money Market Pool’s investments:

(Continued)

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

Note 3. Cash and Cash Equivalents (Continued)

Security Type	Rating	Carrying Value (in Thousands)	Percent of Pool Assets
Commercial paper	A-1+	\$ 3,626,718	37.76%
	A-1	3,636,575	37.85
Negotiable certificates of deposit	A-1+	844,998	8.80
	A-1	709,000	7.38
Money market funds	AAAm	2,820	0.03
Repurchase agreements (underlying securities):			
U.S. Treasury bonds and notes*	AA+	134,000	1.40
U.S. agency bonds and notes	AA+	651,000	6.78
		<u>\$ 9,605,111</u>	<u>100.00%</u>

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an 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

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. The BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

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, except for government floating rate notes, which can be up to 762 days. The following table provides information on the weighted average maturities for the various asset types in the West Virginia Money Market Pool:

(Continued)

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

Note 3. Cash and Cash Equivalents (Continued)

Security Type	Carrying Value (In Thousands)	WAM (Days)
Commercial paper	\$ 7,263,293	36
Negotiable certificates of deposit	1,553,998	50
Repurchase agreements	785,000	3
Money market funds	2,820	3
	<u>\$ 9,605,111</u>	36

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.

Note 4. Loans Receivable

As of June 30, 2024, loans receivable consisted of loans to local governmental agencies (LGA's) or other eligible water providers for qualifying projects which comply with the Act. The Fund issued \$5,788,219 in loans whose principal was forgiven during the year ended June 30, 2024, in accordance with funding covenants provided by the EPA. During the year, the Fund disbursed \$15,084,896 of loans which are required to be repaid in accordance with the loan agreements.

Loans mature at various intervals through June 2064. The scheduled principal payments in future years are as follows at June 30:

2025	\$ 8,972,316
2026	9,301,494
2027	9,363,999
2028	9,413,649
2029	9,335,056
Thereafter	<u>164,866,715</u>
	211,253,229
Less loans closed but not disbursed	38,053,198
Less current maturities	<u>8,972,316</u>
Total loans receivable, net of current maturities	<u>\$ 164,227,715</u>

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

Note 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, 2024, the cumulative amounts awarded to the Fund from the EPA and the contributed matching funds from the State were as follows:

Effective Award Date	EPA Grant	State Match
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	9,466,950	2,714,600
09/15/2011	6,394,920	1,883,600
01/20/2012*	150,000	-
09/05/2012	6,224,032	1,801,257
07/01/2013	5,810,490	1,684,200
07/01/2014	6,701,750	1,769,000
07/01/2015	6,590,250	1,757,400
06/27/2016	5,949,000	1,662,400
08/01/2017	5,458,468	1,648,200
09/05/2018	7,940,580	2,221,400
09/20/2019	8,355,836	2,200,800
09/01/2020	8,054,240	2,202,200
12/01/2021	7,659,000	2,220,000
09/13/2022	52,075,784	3,220,600
09/21/2023	52,076,168	3,112,900
	<u>\$ 288,184,509</u>	<u>\$ 51,715,657</u>

* Funds did not require a state match.

(Continued)

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

Note 5. Capital Grants and Contributions (Continued)

The following represents the amounts of EPA grants and State matching funds received (cash basis) by the Fund through June 30, 2024:

<u>Cumulative Through</u>	<u>Federal</u>	<u>State</u>	<u>Total Capital Grants and Contributions</u>
June 30, 2024	\$ 200,396,935	\$ 57,225,057	\$ 257,621,992

Note 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 WV DEP to participate in future lending activities consistent with the guidelines of the Act. As of June 30, 2024, the Fund had seven outstanding binding commitments totaling \$39,383,651.

The Fund has awarded loans not yet disbursed of approximately \$38,053,198 for projects previously approved and in various stages of completion.

Note 7. Risk Management

The Fund is exposed to various risks of loss related to torts, 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, 2024.

Note 8. Transactions with State of West Virginia Agencies

The Authority pays for and is reimbursed for certain administrative expenses (including salaries and legal expenses) on behalf of the Fund and the WV DEP. During the year ended June 30, 2024, the Fund incurred and recognized \$356,614 and \$567,096 in administrative expenses from the Authority and the WV DEP, respectively. As of June 30, 2024, \$79,678 and \$567,096 remain payable to the Authority and the WV DEP, respectively.

Note 9. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following Statements, which are not yet effective.

In December 2023, the GASB issued Statement No. 102, Certain Risk Disclosures. This Statement defines and requires governments to disclose the risks related to constraints and concentrations of inflows or outflows of resources. The objective is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024.

(Continued)

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

Note 9. New Accounting Pronouncements (Continued)

In April 2024, The GASB issued Statement No. 103, Financial Reporting Model Improvements. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement specifically addresses changes to elements impacting Management's Discussion and Analysis, Unusual or Infrequent Items, the presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position, Major Component Unit Information, Budgetary Comparison Information, and addresses certain application issues. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025.

Management has not determined the impact of these new GASB Statements on the prospective financial statements of the Fund.

ACCOMPANYING INFORMATION

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

SCHEDULES OF ADMINISTRATIVE FEES ACTIVITY

As of and for the year ended June 30, 2024

**SCHEDULE OF ADMINISTRATIVE FEES, ASSETS, LIABILITIES,
AND FUND NET POSITION**

ASSETS

Cash and cash equivalents	\$ 10,561,247
Administrative fees receivable	64,030
Total assets	<u>\$ 10,625,277</u>

LIABILITIES

Accounts payable, related party	\$ 646,774
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RESTRICTED FUND NET POSITION	<u>\$ 9,978,503</u>
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**SCHEDULE OF ADMINISTRATIVE FEES, REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION**

REVENUES

Administrative fees	\$ 771,793
Interest on investments	548,487
Total revenues	<u>1,320,280</u>

EXPENSES

Administrative expense	923,710
Net increase in fund net position (net income)	<u>396,570</u>

RESTRICTED FUND NET POSITION - ADMINISTRATIVE FEES, beginning	<u>9,581,933</u>
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RESTRICTED FUND NET POSITION - ADMINISTRATIVE FEES, ending	<u>\$ 9,978,503</u>
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SCHEDULE OF CASH FLOWS

NET INCOME	\$ 396,570
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Adjustments to reconcile net income to net cash provided
by administrative fees activity:

Increase in administrative fees receivable	(1,454)
Increase in accounts payable, related party	555,792

NET CASH PROVIDED BY ADMINISTRATIVE FEES ACTIVITY	<u>950,908</u>
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CASH AND CASH EQUIVALENTS, beginning	<u>9,610,339</u>
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CASH AND CASH EQUIVALENTS, ending	<u>\$ 10,561,247</u>
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See Independent Auditor's Report.

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2024

<u>Federal Grantor or Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency: Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 11,472,237 ¹

¹ This amount was passed through to nonfederal entities under a loan program.

Note 1. Basis of Presentation

The above schedule of expenditures of federal awards includes the federal award activity of the West Virginia Drinking Water Treatment Revolving Loan Fund (the Fund) under programs of the federal government for the year ended June 30, 2024. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Fund, it is not intended to and does not present the financial position, changes in fund net position or cash flows of the Fund.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The Fund has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the West Virginia Department of Environmental Protection and
the West Virginia Water Development Authority
Charleston, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Virginia Drinking Water Treatment Revolving Fund (the Fund), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated October 4, 2024.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
October 4, 2024

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

To the West Virginia Department of Environmental Protection and
the West Virginia Water Development Authority
Charleston, West Virginia

Report on Compliance for Major Federal Program

Opinion on Major Federal Program

We have audited the West Virginia Drinking Water Treatment Revolving Fund's (the Fund) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Fund's major federal program for the year ended June 30, 2024. The Fund's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2024.

Basis for Opinion on Major Federal Program

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Fund's compliance with the compliance requirements referred to above.

Report on Compliance for Major Federal Program (Continued)

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Fund's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Fund's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Fund's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Fund's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Fund's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Fund's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over

Report on Internal Control over Compliance (Continued)

compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
October 4, 2024

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2024

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? _____ Yes X No

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2024

Section I - Summary of Auditors' Results (Continued)

Dollar threshold used to distinguish
between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

X Yes No

Section II - Financial Statement Audit Findings

No findings were identified that are required to be reported under this section.

Section III - Federal Award Findings and Questioned Costs

No findings were identified that are required to be reported under this section.