LEGISLATIVE AUDIT REPORT

West Virginia Department of Environmental Protection - Division of Water and Waste Management

FOR THE PERIOD JULY 1, 2009 - JUNE 30, 2010

AUDIT SCOPE

- Revenues and Expenditures of the Clean Water State Revolving Fund Loan Programs; except for Onsite System Loan Program

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WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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The Joint Committee on Government and Finance:

In compliance with the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, we conducted a post audit over the West Virginia Department of Environmental Protection (DEP), Division of Water and Waste Management (DWWM), Clean Water State Revolving Fund (CWSRF) Revenue and Expenditures of the Clean Water State Revolving Fund Loan Programs, except for the Onsite System Loan Program, for the period July 1, 2009 through June 30, 2010. Previously four prior reports have been issued for the Division of Water and Waste Management (DWWM): 1) Legislative Rules Not Promulgated for Cost Recoveries (June 2008); 2) Performance Bond Fund, Equipment Purchases and Cash Collections, DWWM Notice of Violations (May 2009); 3) West Virginia Department of Environmental Protection Division of Water and Waste Management (May 2010); and 4) West Virginia Department of Environmental Protection Division of Water and Waste Management (July 2011). Any deviations from the audit period or from the Clean Water State Revolving Fund are described in the Scope section. We conducted our audit in accordance with auditing standards generally accepted in the United States, except for the independence impairment discussed in the Opinion section of the Independent Auditor's Report.

Our audit disclosed certain findings which are detailed in this report. The Spending Unit's management has responded to the audit findings; we have included the responses following each finding.

Respectfully submitted,

Stacy L. Sneed

Stacy L. Sneed, CPA, CICA, Director
Legislative Post Audit Division

WEST VIRGINIA DEPARTMENT OF ENVIRONMENTAL PROTECTION
DIVISION OF WATER AND WASTE MANAGEMENT
CLEAN WATER STATE REVOLVING FUND
JULY 1, 2009 – JUNE 30, 2010

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WEST VIRGINIA DEPARTMENT OF ENVIRONMENTAL PROTECTION
DIVISION OF WATER AND WASTE MANAGEMENT
CLEAN WATER STATE REVOLVING FUND
JULY 1, 2009 – JUNE 30, 2010

INDEPENDENT AUDITOR'S REPORT

Post Audit Subcommittee:

Compliance

We have audited the Department of Environmental Protection (hereafter referred to as DEP), Division of Water and Waste Management (hereafter referred to as DWWM), Clean Water State Revolving Fund's (hereafter referred to as CWSRF) compliance with the laws, rules, and regulations applicable to Fiscal Year 2010 Revenues and Expenditures of the Low-Interest Loan Program and Agriculture Water Quality Loan Program (Funds 3329 and 3342). We did not review the Onsite System Loan Program. We also reviewed the Fiscal Year 2010 CWSRF Federal Grants Revenue (Fund 8708). Compliance with the requirements referred to above is the responsibility of DEP's management. Our responsibility is to express an opinion on the DEP's compliance based on our audit.

Except for the organizational impairment described in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on DEP. An audit includes examining, on a test basis, evidence about DEP'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 DEP's compliance with those requirements.

In accordance with W.Va. Code Chapter 4, Article 2, the Post Audit Division is required to conduct post audits of the revenues and expenditures of the spending units of the state government. The Post Audit Division is organized under the Legislative Branch of the State and our audits are reported to the Legislative Post Audit Subcommittee. Therefore, the Division has historically been organizationally independent when audits are performed on an agency, board, or program of the Executive Branch of the State. However, this organizational independence was impaired when the President of the Senate became acting Governor of the State on November 15, 2010, in accordance with W.Va. Code §3-10-2. Audits completed after this date will not comply with auditing standards generally accepted in the United States in regards to organizational independence. Since the President of the Senate is acting Governor, the Executive Branch has the ability to influence the initiation, scope, timing, and completion of any audit. The Executive Branch could also obstruct audit reporting, including the findings and conclusions or the manner, means, or timing of the audit organization's reports.

In our opinion, except for the noncompliance noted in the findings of this report, DEP complied, in all material respects, with the compliance requirements referred to above that are applicable during fiscal year 2010 and any other time periods mentioned in the Audit Scope section.

Internal Control

Management of DEP is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered DEP's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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 DEP's internal control over compliance.

A *deficiency* in *internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their functions, to prevent, or detect and correct, noncompliance 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 compliance requirement 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 that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance.

This communication is intended solely for the information and use of the Post Audit Subcommittee, the members of the WV Legislature, and management of DEP. However, once released by the Post Audit Subcommittee, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

Stacy L. Sneed

Stacy L. Sneed, CPA, CICA, Director
Legislative Post Audit Division

June 22, 2011

WEST VIRGINIA DEPARTMENT OF ENVIRONMENTAL PROTECTION
DIVISION OF WATER AND WASTE MANAGEMENT
CLEAN WATER STATE REVOLVING FUND
JULY 1, 2009 – JUNE 30, 2010

EXECUTIVE SUMMARY

Informational Finding 1 **Interest was not paid according to Debt Service Schedule**

- One local government did not pay interest based on the terms in the Loan Agreement. Depending on the methodology used for recalculating, the difference between the actual interest & principal was $2,666.00.

  Auditor's Recommendation

  We recommend the DEP require Local Governments to make the interest payments as required by the Loan Agreement or the DEP amend the Loan Agreements and keep documentation showing the justification and method of recalculation in the loan file. (See Pages 12 &13)

  Spending Unit's Response

  See Appendix at end of report.

Informational Finding 2 **Inconsistencies in Calculation of Admin Fees**

- We noted inconsistencies in the calculation of administration fees for four of the 21 loans. The differences between the actual admin fees and audited admin fees totaled $1,253.00 and $140,360.00 for the Fiscal Year 2010 repayments and over the life of the Loan, respectively.

  Auditor's Recommendation

  We recommend the DEP document the justifications for and the methods used in the recalculation of quarterly payments and place a copy of such documentation in the Loan Files. We also recommend the same method of calculating admin fees be used for all loan agreements. (See Page 14)

  Spending Unit's Response

  See Appendix at end of report.

Finding 1 **Lack of Documentation in DEP Loan Files**

- The Clean Water State Revolving Fund (CWSRF) is used to provide low interest loans to local governments for construction of municipal wastewater treatment works and is available for municipalities and public service districts to build, upgrade, or expand treatment facilities and collection systems.

- We requested to see the Loan files for the 21 loans selected and were informed by the SRF Program Manager, most of the loan files had been "purged", as these were older loans. According to the Program Manager this was done a few years ago. The Program Manager provided us with what documentation was available. DEP had "purged" all of the Priority Fact Sheets prior to 2008.

<u>Auditor's Recommendation</u>

We recommend the DEP scan all Loan files and Priority lists prior to destroying paper files. (See Pages 15 &16)

<u>Spending Unit's Response</u>

See Appendix at end of report.

Finding 2 Weakness in Internal Controls over Bank Statements

- The DEP performed no reconciliation of their local bank accounts. We are unable to reconcile the Accounting Ledgers to the local Bank Statements for five out of the seven bank accounts for Fiscal Year 2010.

<u>Auditor's Recommendation</u>

We recommend the DEP implement an effective system of controls over loan repayments by reconciling the accounting ledgers to bank statements and maintain adequate records to document such reconciliations. (See Pages 17 & 18)

<u>Spending Unit's Response</u>

See Appendix at end of report.
See Auditor's Comments on Response on Pages 17 & 18.

Finding 3 Noncompliance with Ag Loan Agreement

- The WVDEP does not receive the monthly Ag Water Quality Loan Program Tracking forms as required by the Bank Loan Augmentation Agreement.

<u>Auditor's Recommendation</u>

We recommend that the DEP comply with their Bank Loan Augmentation Agreement by receiving the Ag Water Quality Loan tracking forms and strengthen internal controls over monitoring. (See Page 19)

<u>Spending Unit's Response</u>

See Appendix at end of report.

Finding 4 **Unable to determine when Recipient As-Built Plans were received**

- There were 19 loan files, which we reviewed for Recipient As-Built Plans. One file received the plans however based on the available documentation we were unable to determine if the plans were received by the Local Government within 60 days of the completion of the Project.

Auditors Recommendation

We recommend the DEP scan all Loan files prior to destroying paper files. (See Page 20)

Spending Unit's Response

See Appendix at end of report.

Finding 5 **Lack of Documentation over receiving manuals**

- During our audit of the Cap Loan Payments, we reviewed four loan files with projects which were at least 90% complete, as determined by DEP. We noted three of four loan files did not have documentation supporting the submission of the Final Operation and Maintenance Manuals.

Auditor's Recommendation

We recommend DEP fully comply with their loan agreement and strengthen internal controls over receiving the Final Operations and Maintenance Manuals from the Consulting Engineers or revise the loan agreements for projects which do not require the Operation and Maintenance Manuals. (See Page 21)

Spending Unit's Response

See Appendix at end of report.

Finding 6 **Lack of Documentation over receiving financial reports**

- During our audit of the Cap Loan Payments, we reviewed eight loan files for Annual Audit Reports and Budgets. We were unable to locate either the 2009 and/or 2010 Annual Audits and/or Budgets in seven loan files.

Auditor's Recommendation

We recommend DEP fully comply with their loan agreement and strengthen internal controls over receiving audit reports and budgets. (See Page 22)

Spending Unit's Response

See Appendix at end of report.

Finding 7 **Lack of Monitoring over Monthly Reports**

- The DEP allowed two local governments to submit reports on a basis other than monthly. The Loan Agreements stated Financial Reports should be provided monthly.

Auditor's Recommendation

We recommend the DEP revise the language in the Loan Agreements to allow for submission of Financial Reports on a basis other than Monthly. The DEP could also hold future payments to the Local Government until the reports are received. (See Page 23)

Spending Unit's Response

See Appendix at end of report.

Finding 8 No Authority for Water Pollution Revolving – Admin. Fee Fund

- The WV Department of Environmental Protection (DEP) is depositing administration fees related to repayments of loans made with State Revolving Fund monies into the Water Pollution Revolving Fund – Admin Fee (Fund 3342).

- Monies received from Federal Grants to be used for administering the Water Pollution Control Revolving Fund (Fund 3329) are also deposited into Fund 3342.

- We could not find statutory authority for the Water Pollution Revolving Fund – Admin Fee (Fund 3342).

Auditor's Recommendation

DEP transfer the monies in Fund 3342 – Water Pollution Revolving Admin Fee Fund to Fund 3329 – Water Pollution Control Revolving Fund and close Fund 3342 or seek statutory approval for Fund 3342. (See Pages 24 – 26)

Spending Unit's Response

See Appendix at end of report.

WEST VIRGINIA DEPARTMENT OF ENVIRONMENTAL PROTECTION
DIVISION OF WATER AND WASTE MANAGEMENT
CLEAN WATER STATE REVOLVING FUND
JULY 1, 2009 – JUNE 30, 2010

INTRODUCTION

POST AUDIT AUTHORITY

This is the report on the post audit of the West Virginia Department of Environmental Protection (DEP) Division of Water and Waste Management (DWWM) Revenues and Expenditures of the Clean Water State Revolving Fund (CWSRF) Loan Programs, except for the Onsite System Loan Program, for the audit period of July 1, 2009 – June 30, 2010. Previously four prior reports have been issued for the Division of Water and Waste Management (DWWM): 1) Legislative Rules Not Promulgated for Cost Recoveries (June 2008); 2) Performance Bond Fund, Equipment Purchases and Cash Collections, DWWM Notice of Violations (May 2009); 3) West Virginia Department of Environmental Protection Division of Water and Waste Management (May 2010); and 4) West Virginia Department of Environmental Protection Division of Water and Waste Management (July 2011). Any deviations from the audit period can be found in the Audit Scope Section. The audit was conducted pursuant to Chapter 4, Article 2 of the West Virginia Code, which requires the Legislative Auditor to "make post audits of the revenues and funds of the spending units of the state government, at least once every two years, if practicable, to report any misapplication of state funds or erroneous, extravagant or unlawful expenditures by any spending unit, to ascertain facts and to make recommendations to the Legislature concerning post audit findings, the revenues and expenditures of the state and of the organization and functions of the state and its spending units."

BACKGROUND

The Division of Water and Waste Management's Clean Water State Revolving Fund is a program funded to address the water quality problems through wastewater facility construction, upgrades, or expansions. The program deals with the general oversight, fiscal management, and administrative compliance review of local government entities who receive funds from this program. A community must be recommended by the West Virginia Infrastructure and Jobs Development Council to seek financial assistance from the Clean Water State Revolving Fund. Currently, three programs exist that offer financial assistance: Low Interest Loan Program, Agriculture Water Quality Loan Program, and Onsite Systems Loan Program. The Low Interest Loan Program is for the construction of municipal wastewater treatment works to build, upgrade, or expand facilities and collection systems. The Agriculture Water Quality Loan Program is for addressing pollution from nonpoint sources. The Onsite Systems Loan Program is for replacing malfunctioning septic systems and to install new on-site sewage systems for homes that have direct sewage discharges to ditches and streams.

The West Virginia Department of Environmental Protection – Division of Water and Waste Management is currently located in Charleston, West Virginia, in Kanawha County. A listing of key DEP personnel is on the following page.

WEST VIRGINIA DEPARTMENT OF ENVIRONMENTAL PROTECTION
DIVISION OF WATER AND WASTE MANAGEMENT
CLEAN WATER STATE REVOLVING FUND
JULY 1, 2009 – JUNE 30, 2010

SPENDING UNIT CONTACTS

West Virginia Department of Environmental Protection –
Division of Water and Waste Management

Randy C. Huffman .... Cabinet Secretary (May 2008 – Present)
Deputy Cabinet Secretary and Director, Division of Mining & Reclamation (April 2005 – April 2008)

Lisa A. McClung.. Deputy Cabinet Secretary (May 2008 – Present)
Director, Division of Water and Waste Management (March 2005 – May 2008)

Scott Mandirola ……… Director, Division of Water and Waste Management (September 2008 – Present)

J. Michael Johnson ...... Assistant Director, Division of Water and Waste Management (– April 30,2011)

June Casto .... Chief, Office of Administration (April 2008 – Present)

Rosalie Brodersen ....Environmental Resources Supervisor

Jean J. Sheppard ....Controller (February 2010 – Present)

Katheryn Emery ....Assistant Director, Division of Water and Waste Management
...(April 30, 2011 – Present)

Jennifer R. Paxton .... Financial Reporting Specialist 3

Kim Henderson .... Financial Reporting Specialist 2

AUDIT SCOPE

We have audited the West Virginia Department of Environmental Protection - Division of Water and Waste Management's Clean Water State Revolving Fund for the period of July 1, 2009 through June 30, 2010. Our audit scope included a review of internal control and compliance with the laws, rules, and regulations applicable to (a) the Revenue and Expenditures of the Low-Interest Loan Program and Agriculture Water Quality Loan Program; and (b) CWSRF Federal Grants Revenue. We did not review the Onsite Systems Loan Program. The audit was conducted in accordance with auditing standards generally accepted in the United States.

OBJECTIVES AND METHODOLOGIES

The objectives of our post audit were to audit the revenues and expenditures of the DWWM related to the following areas: (a) the Revenue and Expenditures of the Low-Interest Loan Program and Agriculture Water Quality Loan Program; and (b) CWSRF Federal Grants Revenue. Additionally, we were to report any misapplication of state funds or erroneous, extravagant or unlawful expenditures by any spending unit that we find, to ascertain facts and to make recommendations to the Legislature concerning post audit findings, the revenues and expenditures of the state and of the organization and functions of the state and its spending units. We were to determine whether expenditure and revenue transactions were related to the spending unit's programs, were reasonable, and were recorded properly in the accounting systems. Additionally, we were to examine the spending unit's records and internal control over transactions and to evaluate its compliance with applicable State laws, rules and regulations.

In preparation for our testing, we studied legislation, applicable WV Code sections, applicable Federal Regulations, applicable rules and regulations, and policies of the spending unit. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observations of the spending unit's operations, and through inspections of documents and records. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Additionally, we reviewed the budget, studied financial trends, and interviewed spending unit personnel to obtain an understanding of the programs and the internal controls. In planning and conducting our post audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk.

A variation of non-statistical and statistical sampling was used. Our samples of transactions were designed to provide conclusions about the validity of transactions, as well as internal control and compliance attributes. Some transactions for testing were selected using RAT-STAT statistical software and other transactions were selected for testing using professional judgment.

DEP's written response to the reportable compliance and other matters identified in our audit has not been subjected to the auditing procedures applied in the audit and, accordingly, we express no opinion on it.

DEP's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Post Audit Subcommittee in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

CONCLUSION

This report includes material findings regarding instances of noncompliance with applicable laws, rules or regulations. Other less significant findings that did not warrant inclusion in this report were communicated to DEP.

EXIT CONFERENCE

We discussed this report with management of the spending unit on July 27, 2011. All findings and recommendations were reviewed and discussed. Management's responses are included in the Appendix at the end of the report.

REPORTABLE COMPLIANCE AND OTHER MATTERS

Informational Finding 1 Interest was not paid according to Debt Service Schedule

Condition: We recalculated the Loan Repayments for the period of July 1, 2009 through June 30, 2010 for 21 loans. We noted one local government did not pay interest based on the terms in the Loan Agreement. Based on our calculations the Local Government should have paid approximately $163,812.00 in Interest based on the Debt Service Schedule in the Loan Agreement. Actual Interest paid by the Local Government was approximately $161,146.00 or approximately $2,666.00 less than the Debt Service Schedule.

We were informed by DEP, if a Local Government began to repay the Loan, but had not received all of their funds, the interest is calculated based on the amount of funds actually paid out to the Local Government. At the time this Local Government began to repay the Loan; they had provided to the Water Development Authority the required Local Bonds but still had not received all of the loan funds. Using this method for calculating the audited interest and principle, we determined the local government paid approximately $610.00 in additional interest and approximately$3,276.00 less in principle, resulting in a net decrease of $2,666.00. Regardless of the method used, the actual principle and interest received was approximately $2,666.00 less than our calculated audited principle and interest. The schedule below shows the differences between the actual payments and the audited interest and principle based on both methods. (Amounts are rounded to nearest dollar)

	Sept 2009	Dec 2009	Mar 2010	June 2010	Total
Actual Interest	$40,821.00	$40,377.00	$39,930.00	$40,018.00	$161,146.00
Audited Interest – based on Debt Service Schedule	41,622.00	41,177.00	40,731.00	40,282.00	163,812.00
Difference	(801.00)	(800.00)	(801.00)	(264.00)	(2,666.00)
Actual Principle	88,896.00	89,341.00	89,788.00	90,237.00	358,262.00
Audited Principle – based on Debt Service Schedule	88,897.00	89,341.00	89,788.00	90,237.00	358,263.00
Difference	(1.00)	0.00	0.00	0.00	(1.00)
Actual Interest	40,821.00	40,377.00	39,930.00	40,018.00	161,146.00
Audited Interest – based on Funds paid out	40,809.00	40,360.00	39,910.00	39,457.00	160,536

	Sept 2009	Dec 2009	Mar 2010	June 2010	Total
Difference	12.00	17.00	20.00	561.00	610.00
Actual Principle	88,896.00	89,341.00	89,788.00	90,237.00	358,262.00
Audited Principle – based on Funds paid out	89,709.00	90,158.00	90,609.00	91,062	361,538.00
Difference	(813.00)	(817.00)	(821.00)	(825.00)	(3,276.00)

Criteria: Water Pollution Control Revolving Fund Loan Agreement states in part:

"4.1 (a) (ii). . .to the extent not otherwise limited by any outstanding loan resolution, indenture or other act or document and beginning on the date set forth in Schedule X, to provide debt service on the Local Bonds by depositing in a sinking fund **one-third (1/3) of the interest payment next coming due on the Local Bonds and one-third (1/3) of the principal** payment next coming due on the Local Bonds . . ." (**Emphasis Added**)

Cause: According to the SRF Program Manager, if the Local Government had not used all of the loan funds by the time they start to make the repayments, the interest is calculated on the amount of funds used by the Local Government and not the total Local Bonds.

Effect: The DEP is allowing Local Governments to be in noncompliance with the Loan Agreements, also the DEP is not receiving all of the interest due on the Local Bonds.

Recommendation: We recommend the DEP require Local Governments to make the interest payments as required by the Loan Agreement or the DEP amend the Loan Agreements and keep documentation showing the justification and method of recalculation in the loan file.

Spending Unit's Response: See Appendix at end of report.

Informational Finding 2 Inconsistencies in the Calculation of Admin Fees

Condition: We recalculated the Loan Repayments for the period of July 1, 2009 through June 30, 2010 for 21 loans. We noted inconsistencies in the calculation of admin fees for four loans. Two of the loans had the quarterly payments and admin fees recalculated to reflect a new payment start date. For these two loans the Quarterly Repayment was recalculated using the remaining number of quarters in the original loan agreement. However, the Original Admin fee (which was based on the original loan agreement) was divided by the remaining number of quarters, instead of being recalculated using the new repayment schedule. Admin Fees are calculated by multiplying the beginning balance in each quarter by the admin fee rate (adjusted to a quarterly basis). The sum of the total of each quarter is then divided by the number of quarters, to get an average fee. We were unable to determine how the Admin Fee was calculated for the remaining two loans. The schedule below shows the differences between the actual admin fees and the audited admin fees. (Amounts are rounded to nearest dollar)

	Actual Quarterly Admin Fee	**Actual Total Admin Fee**	**Audited Quarterly Admin Fee**	**Audited Total Admin Fee**	**Quarterly Difference**	**Total Difference**
Loan 1*	$6,317.00	$ 492,734.00	$ 6,152.00	$ 479,823.00	$ 165.00	$ 12,911.00
Loan 2*	19,714.00	2,306,561.00	19,225.00	2,249,375.00	489.00	57,186.00
Loan 3	10,130	1,053,478.00	10,192.00	1,059,984.00	(62.00)	(6,506.00)
Loan 4	20,019	2,322,240.00	19,358.00	2,245,471.00	661.00	76,769.00
Total	$ 56,180	$6,175,013.00	$54,927.00	$6,034,653.00	$1,253.00	$140,360.00
*Admin Fees were not recalculated using same method as the Quarterly Payments						

Criteria: Water Pollution Control Revolving Fund Loan Agreement states in part:

"Schedule X Description of Local Bonds. . .The Local Bonds shall bear no interest from the date of delivery to and including ____________. Commencing ___________, interest on the Local Bonds is payable quarterly, at a rate of _________% per annum. **Commencing ____________, principal of the Local Bonds is payable quarterly, with an administration fee of __%.** Quarterly payments will be made on March 1, June 1, September 1, and December 1 of each year as set forth on the Schedule Y attached hereto and incorporated herein by reference." (**Emphasis Added**)

Cause: The DEP does not perform the recalculation or calculation of the admin fees.

Effect: There are inconsistencies in the calculation of admin fees, which results in some local governments overpaying the admin fee. This could be an issue for some local governments which have a difficult time meeting their quarterly obligations.

Recommendation: We recommend the DEP document the justifications for and the methods used in the recalculation of quarterly payments and place a copy of such documentation in the Loan Files. We also recommend the same method of calculating admin fees be used for all loan agreements.

Spending Unit's

Response: See Appendix at end of report.

Finding 1 **Lack of Documentation in DEP Loan Files**

Condition: The Clean Water State Revolving Fund (CWSRF) is used to provide low interest loans to local governments for construction of municipal wastewater treatment works and is available for municipalities and public service districts to build, upgrade, or expand treatment facilities and collection systems. The loans offer repayment terms from 20 – 40 years. We selected 21 of the 209 loans being repaid during Fiscal Year 2010 for testing. Our sample had Principal, Interest and Administration Fees totaling approximately $5.2 million. Total Principal, Interest and Administration Fees received by DEP during Fiscal Year 2010 were approximately $27 million.

We requested to see the Loan files for the 21 loans selected and were informed by the SRF Program Manager, most of the files had been "purged", as these were older loans. According to the Program Manager this was done a few years ago. The Program Manager provided us with what documentation was available. Also the DEP had "purged" all of the Priority Fact Sheets prior to 2008. The schedule below lists the missing documentation by type of document requested. An offsetting strength over this lack of documentation is the CWSRF undergoes annual reviews and audits by both the Environmental Protection Agency and an Independent Certified Public Accountant. According to DEP, both of these entities select a sample of current loan files for review on a yearly basis.

Attribute Tested	Number of Files Reviewed	Number of Files with Documentation	Number of Files without Documentation	Percentage Unavailable
Maximum Limits of Loan Terms (Priority Fact Sheets used to determine maximums)	21	0	21	100.00%
Repayments started within 1 year of Completion	21	7	14	66.67%
Notification of Recipient As-Built Plans	19	6	13	68.42%
Performance Certificates	19	7	12	63.16%
Final Operation and Maintenance Manuals	18	7	11	61.11%
Final Inspection Reports	19	7	12	63.16%

Criteria: Water Pollution Control Revolving Fund Loan Agreement states in part:

"2.9 The Local Government shall require the Consulting Engineers to submit **Recipient As-Built Plans**, as defined in the SRF Regulations, to it within 60 days of the completion of the Project. **The Local Government shall notify DEP in writing of such receipt.** The Local Government shall submit a **Performance Certificate**, the form of which is attached hereto as Exhibit A, and being incorporated herein by reference, to **DEP within 60 days of the end of the first year after the Project is completed**."(**Emphasis Added**)

"2.10 The Local Government shall require the Consulting Engineers to submit the **final Operation and Maintenance Manual, as defined in the SRF Regulations, to DEP when the Project is 90% completed**. . ." (**Emphasis Added**)

"4.3 . . .The Local Bonds shall not bear interest during the construction period but **interest shall commence accruing on the completion date** as defined in the SRF Regulations, **provided that the annual repayment of principal and payment of interest shall begin not later than one (1) year after the completion date.** The repayment of principal and interest on the Local Bonds shall be as set forth on Schedule Y hereto. . ." (**Emphasis Added**)

Cause: According to the SRF Program Manager, DEP needed the space in the file room.

Effect: We are unable to determine if the Loan files contained the required documentation because records were not available.

Recommendation: We recommend the DEP scan all Loan files and Priority lists prior to destroying paper files.

Spending Unit's Response: See Appendix at end of report.

Finding 2 **Weakness in Internal Controls over Bank Statements**

Condition: We were unable to reconcile the Accounting Ledgers to the local Bank Statements for five out of the seven bank accounts for Fiscal Year 2010. The DEP performed no reconciliation of the Agriculture Loan Ledgers to the local bank accounts, prior to Fiscal Year 2011. During Fiscal Year 2011, the DEP began to reconcile the individual loan ledgers to the Bank Statements. The schedule below shows the results of our reconciliation attempt:

	Bank of Romney	Pendleton Community Bank	Capon Valley Bank	First United Bank and Trust	Summit Community Bank
Bank Beg. Balance	$ 9,847.00	$839,759.00	$319,699.00	$ 555,315.00	$36,412.28
Funds paid to Bank	0.00	32,725.00	59,387.00	0.00	0.00
Repayments by Bank	5,490.00	177,637.00	70,455.00	86,580.00	20,751.00
Bank Ending Balance	$ 4,357.00	$694,847.00	$308,631.00	$ 468,735.00	$15,661.28
Book Beginning Balance	$10,067.00	$835,149.00	$320,894.00	$ 556,805.00	$37,027.00
Book Payments to Bank	0.00	32,725.00	59,387.00	0.00	0.00
Book Repayments by Bank	5,490.00	184,057.00	64,035.00	86,580.00	20,751.00
Book Ending Balance	$ 4,577.00	$683,817.00	$316,246.00	$ 470,225.00	$16,276.00
Difference	$ (220.00)	$ 11,030.00	$ (7,615.00)	$ (1,490.00)	$ (614.72)

Criteria: W. Va. Code §5A-8-9, as amended, states in part:

"The head of each agency shall. . .

(b) Make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities."

Cause: According to the Financial Reporting Specialist 2, ". . . A reconciliation of individual commitment receivables to the bank statements has not been done."

Effect: Without an effective reconciliation processes the WVDEP is unable to determine if loan repayments are properly accounted for.

Recommendation: We recommend the WVDEP implement an effective system of controls over loan repayments by reconciling the accounting ledgers to bank statements and maintain adequate records to document such reconciliations.

Spending Unit's Response: See Appendix at end of report.

Auditor's Comments on Response:

We documented procedures over the Water Pollution Control Revolving Fund Agriculture Loan Program in October of 2008. In these procedures the Program personnel interviewed stated there were no reconciliations performed. When we began to review the Fiscal Year 2010 records, we sent the Program Office these procedures in March of 2011 and asked the Program personnel to review them and if there were changes to those procedures to let us know. The response received from the Program Office gave no indication our procedures were inaccurate. We received a memorandum from the Fiscal Office personnel in response to our attempted reconciliation, on April 28, 2011 which had the statement "A reconciliation of individual commitment receivables to the bank statements has not been done."

Finding 3 **Noncompliance with Ag Loan Agreement**

Condition: The WVDEP does not receive the monthly Ag Water Quality Loan Program Tracking forms as required by the Bank Loan Augmentation Agreement.

Criteria: The Water Pollution Control Loan Fund – Bank Loan Augmentation Agreement II states in part:

"... (d) The Bank will monthly provide the Ag Water Quality Loan Program Tracking form with respect to the status of its Loans to the applicable Soil Conservation District. The District will provide the SRF with a copy of the report."

Cause: According to the Environmental Resources Program Manager I, "the tracking forms are sent to the financial institutions. We do not receive them."

Effect: As a result of not receiving the monthly Ag Water Quality Loan Program Tracking forms, the DEP may not have as effective monitoring over the Agriculture Loans.

Recommendation: We recommend that the DEP comply with their Bank Loan Augmentation Agreement by receiving the Ag Water Quality Loan tracking forms and strengthen internal controls over monitoring.

Spending Unit's Response: See Appendix at end of report.

Finding 4	**Unable to determine when Recipient As-Built Plans were received**
Condition:	There were 19 loan files which we reviewed for Recipient As-Built Plans. Only one file received the plans, however, based on the available documentation we were still unable to determine if the plans were received by the Local Government within 60 days of the completion of the Project.
Criteria:	Water Pollution Control Revolving Fund Loan Agreement states in part:
	"2.9 The Local Government shall require the Consulting Engineers to submit **Recipient As-Built Plans**, as defined in the SRF Regulations, to it within 60 days of the completion of the Project. **The Local Government shall notify DEP in writing of such receipt.**"(**Emphasis Added**)
Cause:	The Final Inspection Report noted the plans had been received, however did not note when the plans were received. Additional documentation for the loan file had been "purged".
Effect:	We are unable to determine if Local Government received the As-Built Plans during the time frame required by the Loan Agreement.
Recommendation:	We recommend the DEP scan all Loan files prior to destroying paper files.
Spending Unit's Response:	See Appendix at end of report.

Finding 5	**Lack of Documentation over receiving manuals**
Condition:	During our audit of the Cap Loan Payments, we reviewed four loan files with projects which were at least 90% complete, as determined by DEP. We noted three of four loan files did not have documentation supporting the submission of the Final Operation and Maintenance Manuals.
Criteria:	The Agreement between the WDA, DEP, and Local Government, states in part: "2.10 The Local Government shall require the Consulting Engineers to submit the final Operation and Maintenance Manual, as defined in the SRF Regulations, to DEP when the Project is 90% complete. . ."
Cause:	DEP stated the three projects did not require these manuals.
Effect:	The DEP and Local Government are in noncompliance with their Loan Agreement.
Recommendation:	We recommend DEP fully comply with their loan agreement and strengthen internal controls over receiving the Final Operations and Maintenance Manuals from the Consulting Engineers or revise the loan agreements for projects which do not require the Operation and Maintenance Manuals.
Spending Unit's Response:	See Appendix at end of report.

Finding 6 **Lack of Documentation over receiving financial reports**

Condition: During our audit of the Cap Loan Payments, we reviewed eight loan files for Annual Audit Reports and Budgets. We were unable to locate either the 2009 and/or 2010 Annual Audits and/or Budgets in five loan files. The schedule below shows the type of report (either Audit or Budget) and the Fiscal Year for which the report was not available. There were 4 Green Reserve Loans made with American Recovery Act monies which were also included in our sample, however these loans were 100% forgiven and had no requirements for monitoring.

Project	Annual Audit Reports missing for 2009	Annual Audit Reports missing for 2010	Annual Budget missing for 2009
Greater St. Albans PSD	X	X	
Huntington	X	X	
Williamstown		X	
Belle	X	X	
Central Hampshire PSD	X		X
Total	**4**	**4**	**1**

Criteria: The Loan Agreement between the DEP, WDA and Local Government, states in part:

"4.1 (b)(xi) That the Local Government shall annually cause the records of the System to be audited by an independent certified public accountant or independent public accountant and shall submit the report of said audit to the Authority and DEP. . ."

"4.1(b)(xii) That the Local Government shall annually adopt a detailed, balanced budget of the estimated revenues and expenditures for operation and maintenance of the System during the succeeding fiscal year and shall submit a copy of such budget to the Authority and DEP within 30 days of adoption. . ."

Cause: The DEP did not receive copies of the Annual Audits and Budgets.

Effect: As a result of not complying with their Loan Agreement, the Fiscal Office is unable to perform an analysis of the Audit Reports.

Recommendation: We recommend DEP fully comply with their loan agreement and strengthen internal controls over receiving audit reports and budgets.

Spending Unit's Response: See Appendix at end of report.

Finding 7	**Lack of Monitoring over Monthly Reports**
Condition:	During our audit of the Cap Loan Payments, we reviewed eight loans to determine if DEP received the Monthly Financial Reports for the period of July 1, 2009 through April 30, 2011. We noted the DEP allowed two local governments to submit reports on a basis other than monthly. The Loan Agreements stated Financial Reports should be provided monthly.
Criteria:	The Loan Agreement between the WDA, DEP, and Local Government, states in part: "2.12 The Local Government, commencing on the date contracts are executed for the acquisition or construction of the Project and for two years following the completion of acquisition or construction of the Project, shall each month complete a Monthly Financial Report . . . and forward a copy by the 10th of each month to DEP and the Authority."
Cause:	Local Governments were allowed to submit reports on a basis other than monthly.
Effect:	As a result of not monitoring the Monthly Financial Reports for compliance, the DEP and Local Government are in noncompliance with the Loan Agreement.
Recommendation:	We recommend the DEP revise the language in the Loan Agreements to allow for submission of Financial Reports on a basis other than Monthly. The DEP could also hold future payments to the Local Government until the reports are received.
Spending Unit's Response:	See Appendix at end of report.

Finding 8 **No Authority for Water Pollution Revolving – Admin. Fee Fund**

Condition: The WV Department of Environmental Protection (DEP) is depositing administration fees related to repayments of loans made with State Revolving Fund monies into the Water Pollution Revolving – Admin Fee (Fund 3342). Monies received from Federal Grants to be used for administering the Water Pollution Control Revolving Fund (Fund 3329) are also deposited into this fund. We noted as of June 30, 2010 Fund 3342 – Water Pollution Revolving – Admin. Fee Fund had a cash balance of $5,106,354.50. We could not find statutory authority for the Water Pollution Revolving Fund – Admin Fee (Fund 3342).

Criteria: Title 33, Chapter 26, Subchapter II, Section 1383 of the United States Code states in part:

“. . .(a) REQUIREMENTS FOR OBLIGATION OF GRANT FUNDS.--Before a State may receive a capitalization grant with funds made available under this subchapter and section 1285(m) of this title, the State shall first establish a water pollution control revolving fund which complies with the requirements of this section.

(b) ADMINISTRATION.--Each State water pollution control revolving fund shall be administered by an instrumentality of the State with such powers and limitations as may be required to operate such fund in accordance with the requirements and objectives of this chapter.

(c) PROJECTS ELIGIBLE FOR ASSISTANCE.--The amounts of funds available to each State water pollution control revolving fund shall be used only for providing financial assistance- (1) to any municipality, intermunicipal, interstate, or State agency for construction of publicly owned treatment works (as defined in section 1292 of this title), (2) for the implementation of a management program established under section 1329 of this title, and (3) for development and implementation of a conservation and management plan under section 1330 of this title. The fund shall be established, maintained, and credited with repayments, and the fund balance shall be available in perpetuity for providing such financial assistance.

(d) TYPES OF ASSISTANCE.--Except as otherwise limited by State law, a water pollution control revolving fund of a State under this section may be used only- (1) to make loans, on the condition that- (A) such loans are made at or below market interest rates, including interest free loans, at terms not to exceed 20 years; (B) annual principal and interest payments will commence not later than 1 year after completion of any project and all loans will be fully amortized not later than 20 years after project completion; (C) the recipient of a loan will establish a dedicated source of revenue for repayment of loans; and (D) the fund will be credited with all payments of principal and interest on all loans; (2) to buy or refinance the debt obligation of municipalities and intermunicipal and interstate agencies within the State at or below market rates, where such debt obligations were incurred after March 7, 1985; (3) to guarantee, or purchase insurance for, local obligations where such action would improve credit market access or reduce interest rates; (4) as a source of revenue or security for the payment of principal and interest on revenue or general obligation bonds issued by the State if the proceeds of the sale of such bonds will be deposited in the fund; (5) to provide loan guarantees for similar revolving funds established by municipalities or intermunicipal agencies; (6) to earn interest on fund accounts; and (7) **for the reasonable costs of administering the fund and conducting activities under this subchapter, except that such amounts shall not exceed 4 percent of all grant awards to such fund under this subchapter**.

Title 40, Part 35, Subpart K, Section 3120 of the Code of Federal Regulations states:

“The SRF may provide seven general types of financial assistance.
(a) Loans. The SRF may award loans at or below market interest rates, or for zero interest. (1) Loans may be awarded only if: (i) all principal and interest payments on loans are credited directly to the SRF; (ii) the annual repayment of principal and payment of interest begins not later than one year after project completion; (iii) the loan is fully amortized not later than twenty years after project completion; and (iv) each loan recipient establishes one or more dedicated sources of revenue for repayment of the loan. (2) Where construction of a treatment works has been phased or segmented, loan repayment requirements apply to the completion of individual phases or segments.
(b) Refinancing existing debt obligations. The SRF may buy or refinance local debt obligations at or below market rates, where the initial debt was incurred after March 7, l985, and building began after that date. (1) Projects otherwise eligible for refinancing under this section on which building began: (i) before January 28, 1988 (the effective date of the Initial Guidance for State Revolving Funds) must meet the requirements of title VI to be fully eligible. (ii) after January 28, 1988, but before the effective date of this rule, must meet the requirements of title VI and of the Initial Guidance for State Revolving Funds to be fully eligible. (iii) after (effective date of the rule) must meet the requirements of this rule to be fully eligible. (2) Where the original debt for a project was in the form of a multi-purpose bond incurred for purposes in addition to wastewater treatment facility construction, an SRF may provide refinancing only for eligible purposes, and not for the entire debt.
(c) Guarantee or purchase insurance for local debt obligations. The SRF may guarantee local debt obligations where such action would improve credit market access or reduce interest rates. The SRF may also purchase or provide bond insurance to guarantee debt service payment.
(d) Guarantee SRF debt obligations. The SRF may be used as security or as a source of revenue for the payment of principal and interest on revenue or general obligation bonds issued by the State provided that the net proceeds of the sale of such bonds are deposited in the SRF.
(e) Loan guarantees for "sub-State revolving funds.'' The SRF may provide loan guarantees for similar revolving funds established by municipal or intermunicipal agencies, to finance activities eligible under title VI.
(f) Earn interest on fund accounts. The SRF may earn interest on Fund accounts.
(g) **SRF administrative expenses. (1) Money in the SRF may be used for the reasonable costs of administering the SRF, provided that the amount does not exceed 4 percent of all grant awards received by the SRF. Expenses of the SRF in excess of the amount permitted under this section must be paid for from sources outside the SRF. (2) Allowable administrative costs include all reasonable costs incurred for management of the SRF program and for management of projects receiving financial assistance from the SRF. Reasonable costs unique to the SRF, such as costs of servicing loans and issuing debt, SRF program start-up costs,**

financial, management, and legal consulting fees, and reimbursement costs for support services from other State agencies are also allowable. (3) Unallowable administrative costs include the costs of administering the construction grant program under section 205(g), permit programs under sections 402 and 404 and Statewide wastewater management planning programs under section 208(b)(4). (4) Expenses incurred issuing bonds guaranteed by the SRF, including the costs of insuring the issue, may be absorbed by the proceeds of the bonds, and need not be charged against the 4 percent administrative costs ceiling. The net proceeds of those issues must be deposited in the Fund.

W. Va. Code §22C-2-3, states in part:

"(a) Under the direction of the division of environmental protection, the water development authority **shall establish, administer and manage a permanent and perpetual fund, to be known as the West Virginia Water Pollution Control Revolving Fund.** The fund shall be comprised of moneys appropriated to the fund by the Legislature, **moneys allocated to the state by the federal government expressly for the purposes of establishing and maintaining a state water pollution control revolving fund, all receipts from loans made from the fund to local entities, all income from the investment of moneys held in the fund, and all other sums designated for deposits to the fund from any source, public or private.** Moneys in the fund shall be used solely to make loans to local entities to finance or refinance the costs of a project: Provided, That moneys in the fund shall be utilized to defray the costs incurred by the authority and the division of environmental protection in administering the provisions of this article: Provided, however, That moneys in the fund shall be used to make grants for projects to the extent allowed or authorized by federal law." (**Emphasis Added**)

Cause: According to the DEP, Federal law and rules do not allow admin fees charged on loans to be mingled with SRF funds if states want to use the fees to administer the program. If fees are deposited into the SRF account, then federal rules would apply to the fees, limiting the ability to use them to administer the program.

Effect: The DEP has a fund which has not been approved by the Legislature.

Recommendation: DEP transfer the monies in Fund 3342 – Water Pollution Revolving Admin Fee Fund to Fund 3329 – Water Pollution Control Revolving Fund and close Fund 3342 or seek statutory approval for Fund 3342.

Spending Unit's Response: See Appendix at end of report.

SUPPLEMENTAL INFORMATION
FUND LISTING

SPECIAL REVENUE FUNDS

3329 Water Pollution Control Revolving Fund

Federal and state funds & interest to administer fund & to make loans to local govts. to finance costs of pollution control projects

3342 Water Pollution Revolving Fund – Admin Fee

Transfers from fund 7250 & interest to administer revolving fund

FEDERAL FUNDS

8708 Consolidated Federal Funds General Administration Fund

Federal funds and interest income to administer and develop energy resources in West Virginia

STATE OF WEST VIRGINIA

OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:

I, Stacy L. Sneed, CPA, CICA, Director of the Legislative Post Audit Division, do hereby certify that the report appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 28th day of July 2011.

Stacy L. Sneed, CPA, CICA, Director
Legislative Post Audit Division

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copies forwarded to the Department of Environmental Protection; Governor; Attorney General; and the State Auditor.

WEST VIRGINIA DEPARTMENT OF ENVIRONMENTAL PROTECTION
DIVISION OF WATER AND WASTE MANAGEMENT
CLEAN WATER STATE REVOLVING FUND
JULY 1, 2009 – JUNE 30, 2010

APPENDIX

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west virginia department of environmental protection

Executive Office
601 57th Street SE
Charleston, WV 25304
Phone: (304) 926-0440
Fax: (304) 926-0446

Earl Ray Tomblin, Governor
Randy C. Huffman, Cabinet Secretary
dep.wv.gov

July 28, 2011

Stacy L. Sneed, CPA, CICA, Director
Legislative Post Audit Division
Building 1, Room W-329
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0610

Dear Ms. Sneed:

The West Virginia Department of Environmental Protection appreciates the opportunity to respond to the findings for the Division of Water and Waste Management, Clean Water State Revolving Fund audit and to have these responses included in your final report. We are pleased that the findings noted are inconsequential to the financial operations of the program and are instead related to compliance with our loan agreement. We will attempt to revise our loan agreement to allow for varying requirements based on the nature of a project.

West Virginia's Clean Water State Revolving Fund program is an exemplary program and was given a 2009 PISCES (Performance and Innovation in the SRF Creating Environmental Success) Award from the Federal Environmental Protection Agency. This award is in recognition of "Innovative Use of the Clean Water State Revolving Fund to Improve Water Quality".

In addition, this program is reviewed annually by the Federal Environmental Protection Agency, and has an annual audit performed by an independent accounting firm as required by state code. Both the reviews and the audits have found no problems with the program. See reports included.

We appreciate your feedback and will use the information to further improve on the Clean Water State Revolving Fund program.

Sincerely,

June A. Casto for

Randy C. Huffman
Cabinet Secretary

RCH/jjs
Attachment

West Virginia Department of Environmental Protection
Division of Water and Waste Management
Clean Water State Revolving Fund
Response to Findings July 2011

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Informational Finding 1: Interest was not paid according to Debt Service Schedule

DEP Response: The Department of Environmental Protection (DEP) disagrees with this finding. The interest charged on the loan is based on the amount advanced under the bond.

The Bond Documents state "… (the "Issuer"), for value received, hereby promises to pay, solely from the special funds provided therefor, as hereinafter set forth, to the West Virginia Water Development Authority (the "Authority") or registered assigns the sum of …… *or such lesser amount as shall have been advanced to the Issuer hereunder and not previously repaid, as set forth in the "Record of Advances" attached as EXHIBIT A hereto and incorporated herein by reference,…".*

If the project is completed within the original time frame, the initial amortization schedule is correct and repayments and interest will follow this schedule. The amortization schedule assumes the project has been completed and paid out based on the original plan. However, there are situations where this is not the case. This occurs when the project is not completed in the initial time anticipated and repayments begin during the same period as payouts are still taking place. In these instances, the Municipal Bond Commission (MBC) recalculates the interest due on the debt service schedule and the amount of principal repayment remains the same.

DEP is in compliance with the Bond Documents and is receiving all of the interest due on the Local Bonds.

Informational Finding 2: Inconsistencies in the Calculation of Admin Fees

DEP Response: DEP disagrees with this finding. When the terms of the loan and the loan amount are known, a request is made to the Water Development Authority (WDA) to issue the loan/bond purchase agreements and the debt service schedule (DSS). The Administrative fee as well as the principal and interest are calculated by a public finance office utilized by the WDA. The DEP does not perform this calculation.

The interest and administrative fees are calculated on the loan amount rounded to the nearest dollar. The administrative fee is then amortized using the straight line method over the term of the loan. This is to allow the rate structure of the utility to be consistent for every payment. If the "normal" schedule was used, a higher administrative fee would be collected up front and decrease as the term goes on, requiring a higher user rate charge to provide sufficient revenues. This would have to be approved by the Public Service Commission. The statement at the end of the DSS, "Plus a quarterly . . . ." was added by the WDA to notate the required submittal of the administrative fee quarterly with the principal and/or interest payment to the Municipal Bond Commission.

Although there appears to be inconsistencies in the calculation of the fees based on the legislative auditors, there is no overpayment. Using a rounded dollar principal and the "commencing date", the fees are based on the loan amount. In the three (3) projects reviewed (excluding Dunbar), the project completion date was greatly revised; however the last payment date was not moved. This is a general program policy and subject to the situation at hand. The rates were already in place so the payments were adjusted to pay off timely. In the case of Dunbar, when the fee of $1, 053,478.40 is divided by 104 quarters, the term of the loan, the administrative fee would be $10,129.60 per quarter.

DEP believes that the administrative fee calculation is consistently applied in all loan/bond purchase agreements.

Finding 1: Lack of Documentation in DEP Loan Files

DEP Response: DEP disagrees with this finding. The Clean Water State Revolving Fund (CWSRF) loans run 20-30-40 years. During the course of the loan, there are documents that are received that are relevant during the construction phase but do not remain relevant for the life of the loan. In addition, every document mentioned in the loan agreement is not necessary for every project. The Federal EPA *suggests* that the DEP maintain only the loan agreement (which includes the debt service schedule) for the length of the loan.

Priority Fact Sheets/Recalculation of loan repayments

The priority fact sheets cannot be used to verify terms of the actual loan. The priority fact sheet includes the 'proposed rate' at the time of the priority list application (this is not the loan application) and will vary from the actual rate at closing. The Public Service Commission (PSC) is the rate setting agency. The PSC does not use the priority fact sheet to calculate the loan.

The Federal Environmental Protection Agency (EPA) requires a project be on the priority list prior to DEP issuing a loan. DEP retains the current year's priority fact sheet until the annual EPA review so that EPA can verify that the project was on the priority list. After their review, the EPA approves removing this information from the file. DEP retains the loan agreement and the repayment information as suggested by EPA.

Repayments started within one year of completion/ Performance Certificates/Final Inspection Report
This is one of the items that the EPA verifies during their annual review of the program. If this were not being met, the EPA would write it up as a finding. The completion date of the project is entered into the Project Manager software. Some projects do not have a final inspection. An example would be a design loan.

Once an entity is in operation, there is no need to retain this information. The Water Development Authority (WDA) retains a copy of all loan agreements that could be used to verify this information.

As-Built Plans
The DEP verifies that the entity receives the record drawings at the final inspection. Design loans will not have record drawings to submit.

Operation & Maintenance Manuals
The need for this document is dependent on the type of project being built. This isn't a requirement for the three entities that were noted in the finding. The projects for these systems consisted of extensions, upgrades and interceptors on existing facilities. Therefore, the entity did not need to pay for an operation and maintenance manual for upgrades to existing systems. It would not be necessary to know that Project X received an O&M manual 20 years after project completion. It would be out of date.

The EPA has no requirements for keeping files for a mandatory time period. They *suggest* that we keep a copy of the loan agreement which includes the debt service schedule. There is no legal requirement mandating we keep this documentation for any specific length of time.

The EPA annually reviews the CWSRF program to ensure that all requirements are being met. The CWSRF program is in compliance with all EPA requirements. In addition, we are required to have an annual audit of the program by an independent accounting firm. Both of these reviews/audits have been conducted since the inception of the program with no major concerns.

There is no reason to expend state time and resources to keep information that is not relevant to future projects. Between the WDA and the DEP we keep a copy of the loan/bond documents and debt service schedule as suggested by EPA.

Finding 2: Weakness in Internal Controls over Bank Statements

DEP response: DEP disagrees with the finding. As stated in the condition, during Fiscal Year 2011, and prior to the start of this audit, the DEP began to reconcile the individual loan ledgers to the Bank Statements. The individual accounts are tracked solely for maximum loan limits that were in place at the start of the program. Repayment of these loans to DEP is the responsibility of the banks, regardless of repayment by the individual to the bank.

The Cause is incorrect for the reasons explained above; reconciliations were implemented prior to the audit. This process will also correct the Effect noted on this finding.

In addition, DEP bank account activity is verified each fiscal year end by completing the outside bank account closing book forms for the single audit. This process reconciles DEP activity to the bank statements. Also completed at year end is a reconciliation of the current year's accounts receivable activity with WV FIMS.

DEP had implemented the recommendation prior to this audit.

Finding 3: Noncompliance with Agriculture Loan Agreement

DEP Response: DEP disagrees with this finding. DEP acknowledges that there were four (4) loan agreements that did not have the tracking sheets in the file, we have since requested and received this information. This will not impact the effectiveness of our monitoring of the Agricultural loans. DEP has historically received copies of the monthly reports.

The DEP does have effective monitoring over this program with the implementation of the reconciliations that were started prior to the audit.

Finding 4: Unable to determine when Recipient As-Built Plans were received

DEP Response: DEP disagrees with this finding. The CWSRF is in compliance with all EPA and state requirements. The 60 day requirement is in the loan agreement however the exact timing is not crucial. The important factor is that the community receives a copy of the record drawings. We are unable to penalize communities for legitimate delays. The complexity and size of the project must be taken into account as well. It may take an engineering firm longer than 60 days to produce a clean set of record drawings for their client. Extensions will always be granted.

Finding 5: Lack of Documentation over receiving manuals

DEP Response: DEP disagrees with this finding. The language is in the loan agreement but the requirement is dependent on the type of project being built. This is not a requirement for the three (3) projects noted in the finding. The projects for these systems consisted of extensions, upgrades and interceptors on existing facilities. Therefore, the entity did not need to pay for an operation and maintenance manual for upgrades to existing systems.

The engineering agreements that are reviewed and approved by the CWSRF spell out what is required of the engineering firm. Requiring the communities to expend unnecessary funds for a manual they don't need is a waste of the CWSRF funds and an unnecessary burden on the community. Having a different loan agreement to match the individual requirements of each project is also an unnecessary waste of employee resources. Doing this would increase the risk of not including something in the agreement that is necessary.

The CWSRF program has functioned well under the existing programmatic requirements and existing loan agreement. The CWSRF program is in compliance with all EPA and state requirements. We will evaluate the wording in our current loan agreement.

Finding 6: Lack of Documentation over receiving financial reports

DEP response: DEP disagrees with this finding. The DEP has received copies of all budgets and reports documented as missing except for the Belle, Williamstown, and Greater St. Albans audits. We are waiting on the auditor's office to complete the reports for Belle and Williamstown and Greater St. Albans will be combining the two years in one report. This finding is inconsistent with the independent financial audits for the last three fiscal years. The auditors have not identified any deficiencies with DEP's sub-recipient monitoring procedures including the receipt of audits, monitoring of ongoing projects, monitoring of loans in repayment status and general compliance with the state's requirements as stipulated in every loan/financing agreement and bond purchase document. EPA has also had no issues with respect to this finding.

The CWSRF is not operating independently of other agencies. The WDA and MBC are monitoring repayments and are taking action on the behalf of the CWSRF if a community fails to make their required payments. In addition, the PSC monitors the communities to ensure that all sewer revenues are spent appropriately on items related to their wastewater system.

This finding fails to take into account the size and abilities of the small communities of West Virginia. For small municipalities like Belle and Williamstown, securing an accounting firm to get the audits done creates a financial burden that they cannot afford. For these municipalities, audits are conducted by the Chief Inspector Division (CID) or pre-approved subcontractor. The workload of the CID, may affect the timing of receipt of the audits. OMB-134 requires SRF's audits be submitted nine months following the close of the Fiscal year.

The CWSRF continues to work with small communities and their constraints to get their audits and budgets as required by the loan agreement. Considering the financial constraints facing these communities, there are no other options. There have been no material defaults that have not been cured in over 20 years of the CWSRF program.

DEP is in compliance with the loan agreement by requesting financial reports in the agreement and following up with a letter to the loan recipient.

Finding 7: Lack of Monitoring over Monthly Reports

DEP response: DEP agrees with this finding. The CWSRF has worked with small municipalities to accommodate their need to submit financial statements on a basis other than monthly in order to save money. The CWSRF will revise the language in the Loan Agreements to allow for submission of Financial Reports on a basis other than monthly.

Finding 8: No Authority for Water Pollution Control – Admin Fee Fund

DEP response: DEP disagrees with this finding. The CWSRF capitalization grant from EPA allows the state to expend up to four percent (4%) of the grant for administrative expenses. However, the regulations also allow the state to charge an administrative fee on the SRF loans. The legal authority for charging fees on loans in the CWSRF program is found in EPA general grant regulations at 40 CFR 31.25 which states "Grantees are encouraged to earn income to defray program costs". On October 20, 2005, EPA published final guidance in the federal register entitled "Guidance on Fees Charged by States to Recipients of Clean Water State Revolving Fund Program Assistance."

DEP's General Counsel, under the authority of the Legislature and the Governor, provides an annual certification which says "Further, it is my opinion that the DEP, as the statutorily authorized instrumentality of the State of West Virginia in conformance with section 22C-2-2 of the West Virginia Code, may legally bind the State to the terms of the capitalization grant agreement between the DEP and the United States Environmental Protection Agency".

The CWSRF capitalization grants from EPA include a special condition that incorporates the EPA Guidance document by reference and clearly requires DEP "…to maintain records which account for fees *separate* from the CWSRF project fund…".

The information provided under the Criteria heading is from the Clean Water Act and EPA's implementing program regulations. The information on administrative costs that is bolded relates only to the amount that may be expended from the federal capitalization grant, which is limited to only four percent (4%) of the federal grant. This four percent amount is inadequate for administering the multi-million dollar program currently managed by DEP. Although the authority and requirements of the fee revenue, identified above, restrict how the fees are used they do not limit the level that may be spent annually on administrative costs of the CWSRF program provided that the fees are not paid for by these federal funds.

If DEP did not have revenues from its fee account, DEP would need to rely on annual funding from the State Budget because the timing and amount of federal grants are unreliable. Federal grants are routinely delayed because of federal budget problems and the level of CWSRF appropriations drastically fluctuate from year to year. As a result, DEP joined most of the other

CWSRF programs across the country, including Delaware, Kentucky, Maryland, Ohio, and Virginia and charge a small fee on CWSRF loans.

By not using four percent (4%) of the federal capitalization grant for administrative expenses, DEP is able to maximize the amount available as loan or grant dollars (principal forgiveness loans) for water quality improvement projects as required by West Virginia Code 22C-2-3.

DEP disagrees with the auditors' Recommendation for the all of the above reasons. In addition, the State Auditor's office determined that CWSRF had statutory approval to create the fund and gave their approval of its creation on 7/31/1995. This documentation has been provided to the auditors.

SA
№ 508

REQUEST
NEW NON-APPROPRIATED ACCOUNT NUMBER
OR
APPROPRIATED FEDERAL ACCOUNT NUMBER

RECEIVED
AUG 0 2 1995
Water Resources
Construction Assistance

SECTION 1 (TO BE COMPLETED BY AGENCY)

ORGANIZATION NAME Division of Environmental Protection WVFIMS ORG. NO. 0313

AGENCY CONTACT Mary M. Hunt PHONE NO. 304-759-0515

TITLE OF NEW ACCOUNT Water Pollution Revol Fd-Admin Fees
(50 CHARACTER MAXIMUM)

SOURCE OF REVENUE: ____ FEDERAL X NON-FEDERAL

ESTIMATED ANNUAL RECEIPTS: $ 1,000,000

TYPE OF DISBURSEMENTS: Administrative support for Water Pollution Control Revolving Fund

JUSTIFICATION OF REQUEST (STATE STATUTORY REFERENCE IF APPLICABLE): To accumulate and seggregate from Federal Program Funds administrative fees charged under Statute 22C-2-3.

WILL FUNDS BE INVESTED? x Y ____ N

COMMENTS:

AUTHORIZED SIGNATURE: Mary M Hunt DATE: 7/18/95

SECTION 2 (TO BE COMPLETED BY THE AUDITOR'S OFFICE)

TYPE OF ACCOUNT: X SPECIAL REVENUE ____ FEDERAL REVENUE

BUDGETARY FUND: 13 FUND TRANSFERS? ____ Y ____ N COMPLIANCE GROUP: ____

ACTIVITIES REQUIRED	CLASS/SOURCE REQUIRED
099	
999	610
999	523

RECEIVED
WV DEP
AUG 0 1 1995
ADMINISTRATION

AUDITOR APPROVAL: G M Hutchinson DATE: 7/26/95

SECTION 3 (TO BE COMPLETED BY WVFIMS STAFF)

FUND 3342 FY 1996 ORG 0313

GAAP FUND 0100 SNA

WVFIMS APPROVAL: D. Shawn Casper DATE: 7/28/95

AUDITOR'S APPROVAL: G M Hutchinson DATE: 7/31/95

WHITE	AUDITOR
YELLOW	AGENCY
PINK	BUDGET
GOLDENROD	WVFIMS
GREEN	LEGISLATIVE AUDITOR

BOI APPROVAL: Roger A. Summerfield

PROGRAM EVALUATION REPORT

West Virginia
Clean Water State Revolving Fund

STATE FISCAL YEAR 2010

EXECUTIVE SUMMARY

This Program Evaluation Report (PER) is the U.S. Environmental Protection Agency's (EPA's) evaluation of West Virginia's Clean Water State Revolving Fund (CWSRF) program. The program is administered by the West Virginia Department of Environmental Protection (WV DEP). The review covers the period July 1, 2009 through June 30, 2010. EPA conducted its on-site review from May 10 through 12, 2011.

The annual review process included the submittal of WV DEP's CWSRF Annual Report, EPA's evaluation of the program, and EPA's issuance of this PER. The scope of this year's program review was established in accordance with EPA's Interim Final Annual Review Guidance and the national State Revolving Fund Checklist to ensure a detailed review of all program components.

During FY 2010, West Virginia's CWSRF program financed 48 projects at wastewater treatment facilities totaling over $96 million. These projects helped communities achieve compliance and improved impaired water bodies. In addition, WV DEP financed another 64 nonpoint source projects totaling over $6 million. All of the projects financed through the CWSRF program are vital in protecting and improving the water quality for drinking water, recreation, and natural habitat in the rivers, lakes, and streams throughout the State.

WV DEP continues to manage the CWSRF program effectively and efficiently; the pace of fund utilization is 93%. The program exhibits good financial health. All loans are strongly secured. WV DEP has managed the Fund to maintain perpetuity as required by the Clean Water Act (CWA).

This PER does not include any recommendations or action items for the State to review or consider.

Audited Financial Statements

The West Virginia Water Pollution Control Revolving Fund

Years Ended June 30, 2010 and 2009

Teed & Associates, PLLC
Certified Public Accountants
3624 MacCorkle Avenue SE
Charleston, West Virginia 25304
304-925-8752

Audited Financial Statements

THE WEST VIRGINIA WATER POLLUTION CONTROL REVOLVING FUND

Years Ended June 30, 2010 and 2009

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Teed & Associates, PLLC

Certified Public Accountants

Established 1992

Member, American Institute of Certified Public Accountants
Member, West Virginia Society of Certified Public Accountants
Member, Tennessee Society of Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statement of net assets of the West Virginia Water Pollution Control Revolving Fund (the Fund), a component unit of the State of West Virginia, as of June 30, 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the West Virginia Water Pollution Control Revolving Fund as of June 30, 2009, were audited by other auditors whose report dated October 15, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

West Virginia Water Pollution
Control Revolving Fund

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United Stated of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of individual fund activity on pages 31 to 33 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Teed & Associates, PLLC

Charleston, West Virginia
October 12, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

-UNAUDITED-

Our discussion and analysis of the West Virginia Department of Environmental Protection's (WVDEP) West Virginia Water Pollution Control Revolving Fund (the Fund) will provide an overview of the Fund's financial activities for the fiscal year ended June 30, 2010. The Fund operates as the State's Clean Water State Revolving Fund under the federal Clean Water Act (CWA). Please read this in conjunction with the financial statements that begin on page 8.

Financial Highlights

The Water Pollution Control Revolving Fund's increase in net assets was approximately 1.2% or \$6.1 million. The increase in net assets was due mainly to a \$13 million increase in loans receivable.

During the 2010 fiscal year the Fund had operating expenses that exceeded operating revenue by \$30,279,971. This is due to the fact that ARRA disbursements were reported as a \$32,959,331 increase in Administrative Expenses. ARRA disbursements did not increase receivables. Federal funding for ARRA disbursements was reported as a \$32,959,331 increase in Capital Grants and Contributions from U.S. Environmental Protection Agency.

The Fund's operating revenue of \$4.509 million was an 8.5% increase over fiscal year 2009. This increase is a result of the increases in administrative fees and interest income on loans. This is viewed as favorable since the operating revenue base has consistently increased over the past six years.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets, and Statement of Cash Flows on pages 8 to 11 provide information about the activities of the Fund and present a long-term view of the Fund's finances. Financial information for the Revolving Loan Fund and the Administrative Fund are shown separately on pages 31 to 33.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

-UNAUDITED-

The West Virginia Water Pollution Control Revolving Fund

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

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

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

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

The CWSRF currently has three financial assistance programs:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

-UNAUDITED-

The West Virginia Water Pollution Control Revolving Fund as a Whole

Table 1
Net Assets
(in thousands)

	2010	2009
Current assets	$ 115,526	$ 120,893
Non current assets	417,966	406,235
Total assets	533,492	527,128
Current liabilities	(162)	(117)
Other liabilities	(337)	(147)
Total liabilities	(499)	(264)
Net assets:		
Total restricted net assets	$ 532,993	$ 526,864

The net assets increased by $6.1 million or around 1.2% during the fiscal year ended June 30, 2010. Fiscal year 2010 included the receipt of the 20th Clean Water State Revolving Fund (CWSRF) Capitalization Grant. These funds were committed to finance loans for municipal wastewater pollution control projects for the control of municipal pollution from point source discharges. Also received was an amendment to the Clean Water State Revolving Fund (CWSRF) Capitalization Grant provided by the American Recovery and Reinvestment Act of 2009 (ARRA) to stimulate the economy and for applying debt forgiveness on loans. "Second round funds" are those dollars available within the CWSRF from repayments of prior loans and investment earnings. They are used for nonpoint source pollution control project loans and waste water facility funding. Effective October 1, 2002, the program began using the 2000 census as a basis for determining the interest rate and loan term based on median household income.

MANAGEMENT'S DISCUSSION AND ANALYSIS

-UNAUDITED-

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

	2010	2009
Operating revenues:		
Interest income on loans	$ 2,559	$ 2,349
Administration fees on loans	1,950	1,806
	4,509	4,155
Operating expenses	34,789	1,905
Total operating income	(30,280)	2,250
Non-operating revenue:		
Investment income	130	1,122
Non-Operating Income	(7)	-
Income before capital grants and contributions	(30,157)	3,372
Capital grants and contributions	36,286	13,506
Change in net assets	$ 6,129	$ 16,878

Revenue for fiscal year 2010 was negatively impacted by a $991,897 decrease in investment income. This was due to a drop in the rate of return on investments. The rate at June 30, 2010 and 2009, respectively, was 0.2% and 0.3%.

Capital Asset and Debt Administration

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

Significant Facts, Decisions or Conditions

Our grant award for FY 2010 of $10,607,850 was awarded on September 30, 2010. A required state match of $2,121,570 was provided by the West Virginia Infrastructure and Jobs Development Council which was deposited in the CWSRF account. The WVDEP was awarded an amendment of $12,218,420 on August 27, 2009 to the previous ARRA grant that was awarded in March of 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS

-UNAUDITED-

In FY2010, the CWSRF program closed thirty-seven loans to Section 212 point source projects totaling \$103,081,907, \$51,931,966 of which are ARRA funds and is not a receivable. Nonpoint source loans issued by DEP approved intermediary lenders totaled \$92,112 in the Agriculture Water Quality Loan Program, and \$266,850 in the Onsite Systems Loan Program.

The one default that had been mentioned in previous audit reports has been cured. There are no municipal entities in monetary default as of June 30, 2010. However there are several entities that continue to have deficiencies in their reserve fund accounts on a monthly basis that are being watched very closely. In the Onsite Systems Loan Program, there appears to be a growing trend of some homeowners getting behind in their loan payments. These situations are also being closely monitored.

In FY2010, the significant balance of funds provided under ARRA was successfully placed under contract by the federal deadline of February 17, 2010. Total ARRA funding of \$61,092,100 was awarded to thirty-nine projects in twenty-two counties. All of these loans contained principal forgiveness of the ARRA loan amounts.

Contacting the Fund's Financial Management

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

THE WEST VIRGINIA WATER POLLUTION CONTROL REVOLVING FUND

STATEMENT OF NET ASSETS

June 30, 2010 and 2009

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	$91,165,348	$ 97,777,457
Receivables:		
Due from WV Department of Environmental Protection	48,584	32,464
Interest on loans	218,405	198,088
Administrative fees on loans	165,972	151,884
Current maturities of loans receivable	23,927,880	22,733,396
Total current assets	115,526,189	120,893,289
Loans receivable, net of current maturities	417,966,122	406,234,802
Total assets	$ 533,492,311	$ 527,128,091
LIABILITIES		
Current liabilities:		
Accounts payable	17,205	18,273
Due to WV Department of Environmental Protection	58,439	11,738
Current Compensated Absences	86,247	86,827
Total current liabilities	161,891	116,838
Compensated absences, net of current portion	54,025	54,902
Other post employment benefits	283,190	92,366
Total liabilities	499,106	264,106
NET ASSETS		
Net assets, restricted	532,993,205	526,863,985
Total net assets	$532,993,205	$ 526,863,985

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

THE WEST VIRGINIA WATER POLLUTION CONTROL REVOLVING FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

Years Ended June 30, 2010 and 2009

	2010	2009
Operating revenues:		
Interest on loans	$2,558,687	$ 2,348,479
Administrative fees	1,950,437	1,806,111
	4,509,124	4,154,590
Operating expenses:		
Personnel costs	1,462,112	1,348,393
Other administrative costs	33,326,983	556,623
	34,789,095	1,905,016
Total operating income	(30,279,971)	2,249,574
Non-operating revenues:		
Investment income	130,205	1,122,102
Non-Operating Income	(7,148)	-
Income before capital grants and contributions	(30,156,914)	3,371,676
Capital grants and contributions:		
U.S. Environmental Protection Agency	34,164,564	11,384,297
State of West Virginia	2,121,570	2,121,570
	36,286,134	13,505,867
Change in net assets	6,129,220	16,877,543
Net assets, beginning of year	526,863,985	509,986,442
Net assets, end of year	$532,993,205	$ 526,863,985

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

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

STATEMENT OF CASH FLOWS

Years Ended June 30, 2010 and 2009

	2010	2009
Operating activities:		
Cash payments for:		
Loans originated	$(35,916,087)	$(37,337,712)
Personnel expenses	(1,243,876)	(1,262,519)
Administrative expenses	(33,325,066)	(585,028)
Cash receipts for:		
Principal repayments	22,981,861	23,468,264
Interest on loans revenue	2,538,371	2,329,807
Administrative fee revenue	1,936,349	1,795,891
Net cash used in operating activities	(43,028,448)	(11,591,297)
Capital and related financing activities:		
Capital grants and contributions from the U.S. Environmental Protection Agency	34,164,564	11,384,297
Capital grants and contributions from the State of West Virginia	2,121,570	2,121,570
Net cash provided by capital and related financing activities	36,286,134	13,505,867
Investing activities:		
Investment income	130,205	1,122,102
Net increase (decrease) in cash	(6,612,109)	3,036,672
Cash and cash equivalents balance, beginning of year	97,777,457	94,740,785
Cash and cash equivalents, end of year	$91,165,348	$ 97,777,457

(Continued)

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

STATEMENT OF CASH FLOWS
(Continued)

Years Ended June 30, 2010 and 2009

Reconciliation of operating income to cash used in operating activities:

	2010	2009
Operating income	$(30,279,971)	$2,249,574
Adjustments to reconcile net income to cash provided by operating activities:		
Increase in non-operating revenue	(7,149)	-
Increase in loans receivable, net	(12,925,802)	(13,869,447)
(Increase) decrease in other receivables	(50,525)	(39,480)
Increase (decrease) in due to WV Department of Environmental Protection	46,701	-
Increase (decrease) in compensated absences	(1,458)	21,293
Increase (decrease) in OPEB	190,824	57,438
Decrease in accounts payable	(1,068)	(10,675)
Restatement of beginning net assets due to GASB 45	-	-
	$(43,028,448)	$(11,591,297)

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

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

1 – DESCRIPTION OF THE FUND

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

The Fund was capitalized by the U.S. Environmental Protection Agency (EPA) through a series of grants starting in 1990. States are required to provide an additional twenty percent of the Federal award as matching funds in order to receive continued funding. As of June 30, 2010, Congress authorized the EPA to award $476,515,657 in capital grants and contributions to the Fund. The State of West Virginia is required to contribute $83,108,342 in matching funds.

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

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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

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

Cash and Cash Equivalents

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

Use of Estimates

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

Loans Receivable

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

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable (Continued)

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

Administrative Fees

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

Compensated Absences

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

Capital Grants and Contributions

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

Net Assets

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

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses

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

3 – CASH AND CASH EQUIVALENTS

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

At June 30, 2010 and 2009, the balances with each were as follows:

	2010	2009
State Treasurer's Office	$ -	$ -
BTI	91,165,348	97,777,457
Total	$ 91,165,348	$ 97,777,457

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

Deposits with BTI at June 30, 2010 and 2009 were invested in two investment pools as follows:

	2010	2009
WV Money Market Pool	$ 86,058,267	$ 92,945,617
WV Government Money Market Pool	5,107,081	4,831,840
Total investments	$ 91,165,348	$ 97,777,457

THE WEST VIRGINIA WATER POLLUTION
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NOTES TO FINANCIAL STATEMENTS

3 – CASH AND CASH EQUIVALENTS (Continued)

The following information addresses risks associated with deposited investments with the BTI as of June 30, 2010:

WV Money Market Pool

Credit risk

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

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

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

Security Type	Moody's	S&P	Carrying Value	Percent of Assets
Commercial paper	P1	A-1	$ 855,844,000	29.75%
Corporate bonds and notes	Aa1	AA	10,000,000	0.35
Corporate bonds and notes	Aa2	AA	10,000,000	0.35
Total corporate bonds and notes			20,000,000	0.70
U.S. agency bonds	Aaa	AAA	246,990,000	8.59
U.S. Treasury notes *	Aaa	AAA	65,153,000	2.26
U.S. Treasury bills *	Aaa	AAA	476,670,000	16.57
Negotiable certificates of deposit	P1	A-1	281,000,000	9.77
U.S agency discount notes	P1	A-1	606,048,000	21.07
Money market funds	Aaa	AAA	150,026,000	5.21
Repurchase agreements (underlying securities)				
U.S. Treasury notes*	Aaa	AAA	101,280,000	3.52
U.S. agency notes	Aaa	AAA	73,700,000	2.56
Total repurchase agreements			174,980,000	6.08
			$ 2,876,711,000	100.00%

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

3 – CASH AND CASH EQUIVALENTS (Continued)

WV Money Market Pool (Continued)

Concentration of credit risk

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

Custodial credit risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the Statement of Fiduciary Net Assets is invested in the lending agent's money market fund in the BTI's name. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The WV Money Market Pool is subject to interest rate risk.

The overall weighted average maturity of the investment of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase.

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NOTES TO FINANCIAL STATEMENTS

3 – CASH AND CASH EQUIVALENTS (Continued)

WV Money Market Pool (Continued)

Interest rate risk (Continued)

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

Security Type	Carrying Value	WAM (days)
Repurchase agreements	$ 174,980,000	1
U. S. Treasury notes	65,153,000	140
U. S. Treasury bills	476,670,000	35
Commercial paper	855,844,000	18
Certificates of deposit	281,000,000	45
U.S. agency discount notes	606,048,000	52
Corporate bonds and notes	20,000,000	19
U.S. agency bonds/notes	246,990,000	55
Money market funds	150,026,000	1
	$ 2,876,711,000	33

Foreign currency risk

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

WV Government Money Market Pool

Credit risk

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

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

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NOTES TO FINANCIAL STATEMENTS

3 – CASH AND CASH EQUIVALENTS (Continued)

WV Government Money Market Pool (Continued)

Credit risk (Continued)

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

Security Type	Moody's	S&P	Carrying Value	Percent of Assets
U.S. agency bonds	Aaa	AAA	$ 79,532,000	35.96%
U.S. Treasury notes*	Aaa	AAA	8,526,000	3.85
U.S. Treasury bills*	Aaa	AAA	29,982,000	13.55
U.S. agency discount notes	P1	A-1	36,465,000	16.49
Money market funds	Aaa	AAA	78,000	0.04
Repurchase agreements (underlying securities):				
U.S. agency notes	Aaa	AAA	66,600,000	30.11
			$ 221,183,000	100.00%

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

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a Consolidated Fund pool or account's investment in a single corporate issuer. The BTI investment policy prohibits the WV Government 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 an investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on BTI's Statement of Fiduciary Net Assets is invested in the lending agent's money market fund in the BTI's name. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

THE WEST VIRGINIA WATER POLLUTION
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NOTES TO FINANCIAL STATEMENTS

3 – CASH AND CASH EQUIVALENTS (Continued)

WV Government Money Market Pool (Continued)

Interest rate risk

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

The overall weighted average maturity of the investments of the WV Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase.

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

Security Type	Carrying Value	WAM (days)
Repurchase agreements	$ 66,600,000	1
U. S. Treasury notes	8,526,000	114
U. S. Treasury bills	29,982,000	72
U.S. agency discount notes	36,465,000	115
U.S. agency bonds/notes	79,532,000	30
Money market funds	78,000	1
	$ 221,183,000	44

Foreign currency risk

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

Securities lending

At June 30, 2010, the fair value of securities on loan and the collateral held by the pools of the BTI are as follows. Of the collateral held, $133,605,470 was received as cash. The collateral received as cash is invested in a collateral pool. For securities loaned at June 30, 2010, the BTI has no credit risk exposure to borrowers because the amount the BTI owes the borrowers exceeds the amounts the borrower owe the BTI.

THE WEST VIRGINIA WATER POLLUTION
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NOTES TO FINANCIAL STATEMENTS

3 – CASH AND CASH EQUIVALENTS (Continued)

WV Government Money Market Pool (Continued)

Securities lending (Continued)

There were no losses during the year resulting from borrower default, and there were no significant violations of legal or contractual provision. The BTI is exposed to reinvestment risk, which is the risk that the cash reinvestment assets would not be sufficient to cover the liabilities due the borrowing brokers.

Maturities of investments made with cash collateral are not matched to maturities of securities loaned.

	Fair Value of Securities on Loan	Collateral Held
WV Money Market Pool	$ 79,707,623	$ 81,331,537
Total	$ 79,707,623	$ 81,331,537

4 – LOANS RECEIVABLE

As of June 30, 2010 and 2009, loans receivable consisted of loans to municipalities and public service districts for the construction of sewer facilities to comply with the Clean Water Act. In addition, during the fiscal years ended June 30, 2010 and 2009, loans were issued to financial institutions for the non-point source program used to provide matching low interest loans for eligible recipients. Loans for municipalities and public service districts carry interest rates ranging from 0% to 3% and administrative fees ranging from 0% to 1%, not to exceed an aggregate of 3%. Loans for the non-point source program carry interest rates from 0% to 2%, which are retained by the financial institution. Loans for municipalities and public service districts are generally amortized over a period not to exceed forty years starting one year after the project is completed, and loans from the non-point source program are generally amortized over a period not to exceed ten years.

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

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

4 – LOANS RECEIVABLE (Continued)

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

As of June 30, 2010, thirty-six loans outstanding have cumulative deficiencies in reserve fund balances of $567,357.

Total cumulative loans authorized as of June 30, 2010 and 2009 were as follows:

	2010		2009	
	Loans Authorized	Remaining Commitment	Loans Authorized	Remaining Commitment
Completed projects	$ 529,999,962	-	$ 469,580,620	-
Projects in progress	136,819,725	$38,313,811	146,259,312	$ 23,185,613
	$ 666,819,687	$38,313,811	$ 615,839,932	$ 23,185,613

Loans mature at various intervals through December 1, 2050. Payment schedules are calculated based on the authorized loan amount. If a loan recipient does not utilize the entire authorized amount, the payment schedule is recalculated to reflect the reduced amount. The $38.3 million difference in the scheduled principal payments shown below and loans receivable in the Statement of Net Assets represents the amount of authorized loans not utilized at June 30, 2010.

4 – LOANS RECEIVABLE (Continued)

The scheduled principal payments on all loans maturing in subsequent years are as follows at June 30, 2010:

2011	$ 23,927,880
2012	25,543,504
2013	25,984,154
2014	25,697,042
2015	25,494,459
Thereafter	353,560,774
	480,207,813
Less current maturities	23,927,880
	456,288,933
Less authorized, but not disbursed	38,313,811
	$ 417,966,122

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

4 – LOANS RECEIVABLE (Continued)

Major Loans to Local Agencies

As of June 30, 2010 and 2009, the Fund has authorized loans to twenty-six separate entities, respectively, that exceed $7 million each. The outstanding balances of these loans represent approximately 71% and 70% of the total loans receivable as of June 30, 2010 and 2009, respectively, as follows:

Local Agency	Authorized Loan Amount	June 30, 2010 Balance	June 30, 2009 Balance
Beckley	$ 21,754,099	$14,630,739	$14,355,560
Berkeley County PSD	80,778,117	55,120,802	58,115,436
Bluefield	9,368,645	2,964,010	3,432,442
Charleston	30,750,880	21,720,862	22,542,975
Clarksburg	7,484,243	3,810,879	3,239,152
Claywood Park PSD	8,327,500	7,349,553	4,791,005
Crab Orchard McArthur PSD	9,131,836	6,826,911	7,099,843
Dunbar	16,152,148	10,405,703	11,026,939
Elk Valley	18,061,117	17,160,585	11,551,237
Elkins	9,771,170	8,901,659	8,965,370
Follansbee	8,616,372	4,200,467	4,631,287
Hancock	11,349,771	8,198,675	6,534,376
Huntington	10,978,789	4,658,666	4,043,353
Logan	9,796,940	8,784,564	8,232,346
Lubeck PSD	7,950,000	4,273,125	4,670,625
Morgantown	51,633,895	27,879,870	23,027,510
Nitro	9,453,080	4,424,817	4,361,657
North Beckley PSD	17,942,963	9,428,021	9,050,013
Parkersburg	17,502,047	15,548,643	16,022,611
Pea Ridge	15,200,321	11,797,098	12,349,323
Saint Albans	19,407,820	12,334,526	11,304,691
Salt Rock PSD	13,938,062	11,698,261	11,993,059
Scotts Run PSD	9,800,207	7,695,103	7,311,293
Shady Spring PSD	10,810,684	7,071,607	7,499,363
Union Williams	16,008,291	13,415,254	13,976,200
Wheeling	14,500,000	12,361,363	12,986,311
	$ 456,468,997	$ 312,661,763	$ 303,113,977

4 – LOANS RECEIVABLE (Continued)

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

5 – DUE TO OTHER AGENCIES

The Fund reimburses the West Virginia Department of Environmental Protection (the Department) for the direct and indirect costs incurred by the Fund, but paid by the Department. In addition, the Fund has an operating agreement with the West Virginia Water Development Authority for project analysis and administrative services. At June 30, 2010 and 2009, the Fund owed $58,439 and $11,738, respectively to the Department, and $-0- and $-0-, respectively, to the West Virginia Water Development Authority.

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

6 – CAPITAL GRANTS AND CONTRIBUTIONS

The Fund is perpetuated by other net revenues, grants, and contributions from the EPA under the Clean Water Act and matching funds from the State of West Virginia. All funds drawn are recorded as capital grants and contributions from the EPA and the State of West Virginia. As of June 30, 2010, the cumulative amounts awarded to the Fund from the EPA and required matching funds from the State of West Virginia were as follows:

Federal Fiscal Year	EPA Grant Amounts	State Match Amounts
1990	$ 20,889,974	$ 4,177,994
1991	31,353,287	6,270,657
1992	9,661,835	1,932,367
1993	30,288,852	6,057,770
1994	29,962,449	5,992,490
1995	37,792,161	7,558,432
1996	No Award	No Award
1997	41,165,207	8,233,041
1998	20,991,267	4,198,253
1999	20,993,049	4,198,610
2000	20,921,868	4,184,373
2001	20,735,946	4,147,189
2002	No Award	No Award
2003	20,859,280	4,171,893
2004	20,821,900	4,174,379
2005	37,435,400	7,500,678
2006	13,650,912	2,730,182
2007	16,684,470	3,336,894
2008	10,607,850	2,121,570
2009	48,873,680	-
2010	22,826,270	2,121,570
Total	$ 476,515,657	$ 83,108,342

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

6 – CAPITAL GRANTS AND CONTRIBUTIONS (Continued)

Subsequent to June 30, 2010 the Fund had applied for additional funding from the EPA under the Clean Water Act in the amount of $31,762,000 and the respective matching funds from the State of West Virginia of $10,607,850.

The following represents the amounts of the EPA grants and contributions received and receivable and the applicable State amounts contributed to the fund as of June 30, 2009.

June 30	Federal Capital	State Capital	Total Capital Grants and Contributions
1992	$ 258,894	$ 4,100,000	$ 4,358,894
1993	11,435,030	-	11,435,030
1994	6,550,679	3,873,001	10,423,680
1995	11,427,541	10,465,787	21,893,328
1996	22,336,689	5,992,490	28,329,179
1997	13,347,837	7,558,432	20,906,269
1998	22,507,123	-	22,507,123
1999	34,283,138	8,233,041	42,516,179
2000	47,718,753	8,396,863	56,115,616
2001	54,843,161	4,184,373	59,027,534
2002	22,842,295	4,147,189	26,989,484
2003	28,135,192	4,156,416	32,291,608
2004	32,799,962	-	32,799,962
2005	31,477,847	8,307,321	39,785,168
2006	20,241,737	3,367,686	23,609,423
2007	12,627,016	2,730,182	15,357,198
2008	20,788,189	3,336,894	24,125,083
2009	11,384,297	2,121,570	13,505,867
2010	34,164,564	2,121,570	36,286,134
Total	$ 439,169,944	$ 83,092,815	$ 522,262,759

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

7 – RISK MANAGEMENT

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters.

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

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

8 – PENSION PLAN

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

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

8 – PENSION PLAN (Continued)

Covered employees are required to contribute 4.5% of their salary to the PERS, and the Fund is required to contribute 11% of covered employees' salaries to the PERS. The required employee contribution percentage has been established and changed from time to time by action of the State Legislature. The employer contribution percentage has been established by PERS. The required contributions are not actuarially determined; however, actuarial valuations are performed to assist the Legislature in determining appropriate values. The Fund and employee contributions, which equal the required contributions, for the three years ended June 2010, 2009, and 2008 are as follows:

	2010	2009	2008
Fund contributions (11%/10.5%/10.5%)	$ 106,129	$ 100,526	$ 92,682
Employee contributions (4.5%)	49,852	48,365	44,222
Total contributions	$ 155,981	$ 148,891	$ 136,904

9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

Funds have not been set aside to pay future costs of retirees, but the Legislature in response to the GASB statements, has made statutory changes to create the West Virginia Retiree Health Benefit Trust Fund (RHBT), an irrevocable trust fund, in which employer contributions for future retiree health costs may be accumulated and invested, and which is

THE WEST VIRGINIA WATER POLLUTION
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NOTES TO FINANCIAL STATEMENTS

9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

expected to facilitate the separate financial reporting of OPEB. The legislation requires the RHBT to determine through an actuarial study, as prescribed by GASB Statement No. 43, the Annual Required Contribution (the ARC) which shall be sufficient to maintain the RHBT in an actuarially sound manner. The ARC shall be allocated to respective employers including the Fund who are required by law to remit at least the minimum annual premium component of the ARC. Revenues collected by RHBT shall be used to fund current OPEB healthcare claims and administrative expenses with residual funds held in trust for future OPEB costs.

Plan Description

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

Funding Policy

The Code requires the OPEB Plan to bill the participating employers 100% of the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy per month.

The ARC rate for years ended June 30, 2010 and 2009 was $761and $388 per employee per month, respectively. Through June 30, 2010 and 2009, the Fund paid premiums of $0 and $501, and the State of West Virginia, on the Fund's behalf, paid $0 and $0 towards the Annual Required Contribution, respectively. As of June 30, 2010, 2009 and 2008, the Fund has recorded a liability of $190,824, $92,366 and $34,928, respectively.

THE WEST VIRGINIA WATER POLLUTION CONTROL REVOLVING FUND

SCHEDULES OF INDIVIDUAL FUND ACTIVITY

SCHEDULES OF ASSETS, LIABILITIES, AND NET ASSETS

JUNE 30, 2010

	Administrative Fee Fund	Loan Fund	Combined Fund Totals
Assets:			
Cash equivalents	$ 5,107,081	$ 86,058,267	$ 91,165,348
Receivables:			
Due from West Virginia Department of Environmental Protection	48,584	-	48,584
Interest on loans	-	218,405	218,405
Administrative fees on loans	165,972	-	165,972
Loans receivable	-	441,894,002	441,894,002
Total assets	$ 5,321,637	$ 528,170,674	$ 533,492,311
Liabilities:			
Accounts payable:	17,205	-	17,205
Due to West Virginia Department of Environmental Protection		58,439	58,439
Compensated absences	140,272	-	140,272
Other Post Employment Benefits	283,190	-	283,190
Total liabilities	440,667	58,439	499,106
Restricted net assets	$ 4,880,970	$ 528,112,235	$ 532,993,205

See Independent Auditors' Report.

THE WEST VIRGINIA WATER POLLUTION CONTROL REVOLVING FUND

SCHEDULES OF INDIVIDUAL FUND ACTIVITY

SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

JUNE 30, 2010

	Administrative Fee Fund	Loan Fund	Combined Fund Totals
Operating revenues:			
Interest income on loans	$ -	$ 2,558,687	$ 2,558,687
Administration fees on loans	1,950,437	-	1,950,437
Total revenues	1,950,437	2,558,687	4,509,124
Operating expenses:			
Personnel costs	1,462,112	-	1,462,112
Other administrative costs	367,652	32,959,331	33,326,983
Total expenses	1,829,764	32,959,331	34,789,095
Operating income	120,673	(30,400,644)	(30,279,971)
Non-operating revenue:			
Investment income	5,225	124,980	130,205
Non-operating revenue	(28,907)	21,759	(7,148)
Capital grants and contributions	-	36,286,134	36,286,134
Net assets, beginning of year	4,517,512	522,346,473	526,863,985
Net assets, end of year	$ 4,614,503	$ 528,378,702	$ 532,993,205

SCHEDULE OF CASH FLOWS

Year Ended June 30, 2010

	Administrative Fee Fund	Loan Fund	Combined Fund Totals
Operating activities:			
Cash payments for:			
Loans originated	$ -	$ (35,916,087)	$ (35,916,087)
Personnel expenses	(1,243,876)	-	(1,243,876)
Administrative expenses	(412,437)	(32,912,629)	(33,325,066)
Cash receipts for:			
Principal repayment	-	22,981,861	22,981,861
Interest on loans revenue	-	2,538,371	2,538,371
Administrative fee revenue	1,936,349	-	1,936,349
Net cash provided by (used in) operating activities	$ 280,036	$ (43,308,484)	$(43,028,448)

See Independent Auditors' Report.

THE WEST VIRGINIA WATER POLLUTION CONTROL REVOLVING FUND

SCHEDULES OF INDIVIDUAL FUND ACTIVITY

SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

JUNE 30, 2010

	Administrative Fee Fund	Loan Fund	Combined Fund Totals
Capital and related financing activities:			
Capital grants and contributions	$ -	36,286,134	36,286,134
Investing activities:			
Investing income	5,225	124,980	130,205
Net increase in cash	285,261	(6,897,370)	(6,612,109)
Cash equivalents, beginning of year	$ 4,831,841	$ 92,945,616	$ 97,777,457
Cash equivalents, end of year	$ 5,117,102	$ 86,048,246	$ 91,165,348
Reconciliation of operating income to cash used in operating activities:			
Operating income	120,673	(30,400,644)	(30,279,971)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Non-operating revenue	(28,908)	21,759	(7,149)
Increase in loans receivable	-	(12,925,802)	(12,925,802)
Increase in other receivables	(14,087)	(20,317)	(34,404)
Increase in due from WVDEP	(16,121)		(16,121)
Increase in due to WVDEP		46,701	46,701
Increase (decrease) in compensated Absences	(1,458)	-	(1,458)
Increase in other post employment Benefits	190,824	-	190,824
Increase (decrease) in accounts payable	(1,068)	-	(1,068)
	$ 249,855	$(43,278,303)	$(43,028,448)

See Independent Auditors' Report.

Teed & Associates, PLLC

Certified Public Accountants

Established 1992
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Member, West Virginia Society of Certified Public Accountants
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH RQUIREMENTS APPLICABLE TO THE CAPITALIZATION GRANT FOR CLEAN WATER STATE REVOLVING FUND AND ON INTERNAL CONTROLOVER COMPLIANCE IN ACCORDANC WITH THE PROGRAM-SPECIFIC AUDIT OPTION UNDER OMB CIRCULAR A-133

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

We have audited the compliance of the West Virginia Water Pollution Control Revolving Fund (the Fund) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to the Capitalization Grant for Clan Water State Revolving Fund for the year ended June 30, 2010. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the *Capitalization Grant for Clean Water State Revolving Fund* occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures 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.

West Virginia Water Pollution
Control Revolving Fund

In our opinion, the Fund complied, in all material respects, with the requirements referred to above that are applicable to its *Capitalization Grant for Clean Water State Revolving Fund* for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the Fund is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Fund's internal control over compliance with requirements that could have a direct and material effect on its Capitalization Grant for Clean Water State Revolving Fund in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a significant deficiency in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

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

Teed & Associates, PLLC

Teed & Associates, PLLC
October 12, 2010