



State of West Virginia
 Department of Administration
 Purchasing Division
 2019 Washington Street East
 Post Office Box 50130
 Charleston, WV 25305-0130

Request for Quotation

RFQ NUMBER
DEP14100

PAGE
1

ADDRESS CORRESPONDENCE TO ATTENTION OF
**CHUCK BOWMAN
 304-558-2157**

VENDOR

RFQ COPY
 TYPE NAME/ADDRESS HERE

SHIP TO

ENVIRONMENTAL PROTECTION
 DEPARTMENT OF
 OFFICE OF ADMINISTRATION
 601 57TH STREET SE
 CHARLESTON, WV
 25304 304-926-0499

| DATE PRINTED | TERMS OF SALE | SHIP VIA | F.O.B. | FREIGHT TERMS |
|--------------|---------------|----------|--------|---------------|
| 06/14/2007 | | | | |

BID OPENING DATE: **06/27/2007** BID OPENING TIME **01:30PM**

| LINE | QUANTITY | UOP | CAT NO. | ITEM NUMBER | UNIT PRICE | AMOUNT |
|------|--|-----|---------|-------------|------------|--------|
| | ***** ADDENDUM NO. 1 ***** | | | | | |
| | ADDENDUM ISSUED FOR THE AUDITING SERVICES CONTRACT TO ADD THE REPORTS AND PAPERS FOR THE FUND'S FISCAL YEARS 2005 & 2006, PER VENDOR REQUEST AS ALLOWED IN THE SPECIFICATIONS SECTION II.E. ON PAGE 13 OF THE RFQ. | | | | | |
| | BID DATE AND OPENING HAVE BEEN EXTENDED TO: 06/27/2007 AT 1:30 PM. | | | | | |
| | ***** NO OTHER CHANGES ***** | | | | | |
| 0001 | 1 | LS | | 946-20 | | |
| | AUDITING SERVICES | | | | | |

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

| | | |
|-----------|-----------|-----------------------------------|
| SIGNATURE | TELEPHONE | DATE |
| TITLE | FEIN | ADDRESS CHANGES TO BE NOTED ABOVE |

WHEN RESPONDING TO RFQ, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'

**GENERAL TERMS & CONDITIONS
REQUEST FOR QUOTATION (RFQ) AND REQUEST FOR PROPOSAL (RFP)**

1. Awards will be made in the best interest of the State of West Virginia.
2. The State may accept or reject in part, or in whole, any bid.
3. All quotations are governed by the *West Virginia Code* and the *Legislative Rules* of the Purchasing Division.
4. Prior to any award, the apparent successful vendor must be properly registered with the Purchasing Division and have paid the required \$125.00 registration fee.
5. All services performed or goods delivered under State Purchase Orders/Contracts are to be continued for the term of the Purchase Order/Contract, contingent upon funds being appropriated by the Legislature or otherwise being made available. In the event funds are not appropriated or otherwise available for these services or goods, this Purchase Order/Contract becomes void and of no effect after June 30.
6. Payment may only be made after the delivery and acceptance of goods or services.
7. Interest may be paid for late payment in accordance with the *West Virginia Code*.
8. Vendor preference will be granted upon written request in accordance with the *West Virginia Code*.
9. The State of West Virginia is exempt from federal and state taxes and will not pay or reimburse such taxes.
10. The Director of Purchasing may cancel any Purchase Order/Contract upon 30 days written notice to the seller.
11. The laws of the State of West Virginia and the *Legislative Rules* of the Purchasing Division shall govern all rights and duties under the Contract, including without limitation the validity of this Purchase Order/Contract.
12. Any reference to automatic renewal is hereby deleted. The Contract may be renewed only upon mutual written agreement of the parties.
13. **BANKRUPTCY:** In the event the vendor/contractor files for bankruptcy protection, this contract is automatically null and void, and is terminated without further order.
14. **HIPAA Business Associate Addendum** - The West Virginia State Government HIPAA Business Associate Addendum (BAA), approved by the Attorney General, and available online at the Purchasing Division's web site (<http://www.state.wv.us/admin/purchase/vrc/hipaa.htm>) is hereby made part of the agreement. Provided that, the Agency meets the definition of a Covered Entity (45 CFR §160.103) and will be disclosing Protected Health Information (45 CFR §160.103) to the vendor.

INSTRUCTIONS TO BIDDERS

1. Use the quotation forms provided by the Purchasing Division.
2. **SPECIFICATIONS:** Items offered must be in compliance with the specifications. Any deviation from the specifications must be clearly indicated by the bidder. Alternates offered by the bidder as **EQUAL** to the specifications must be clearly defined. A bidder offering an alternate should attach complete specifications and literature to the bid. The Purchasing Division may waive minor deviations to specifications.
3. Complete all sections of the quotation form.
4. Unit prices shall prevail in cases of discrepancy.
5. All quotations are considered F.O.B. destination unless alternate shipping terms are clearly identified in the quotation.
6. **BID SUBMISSION:** All quotations must be delivered by the bidder to the office listed below prior to the date and time of the bid opening. Failure of the bidder to deliver the quotations on time will result in bid disqualifications.

SIGNED BID TO:

Department of Administration
Purchasing Division
2019 Washington Street East
Post Office Box 50130
Charleston, WV 25305-0130

Audited Financial Statements
with Other Financial Information

The West Virginia Water Pollution
Control Revolving Fund

Years Ended June 30, 2006 and 2005



Audited Financial Statements
with Other Financial Information

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

Years Ended June 30, 2006 and 2005

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INDEPENDENT AUDITORS' REPORT

West Virginia Water Pollution
Control Revolving Fund
Charleston, West Virginia

We have audited the accompanying 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, 2006 and 2005, and the related statements of revenues, expenses and changes in fund net assets, and cash flows for the years 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 audits.

We conducted our audits 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 audits 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 audits provide 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, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of individual fund activity on pages 29 to 31 and the other financial information on pages 36 to 40 are presented for purposes of additional analysis and are 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.

Johnson & Kawash

September 15, 2006

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, 2006. 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 9.

Financial Highlights

The Water Pollution Control Revolving Fund's increase in net assets was approximately 6.6% or \$28.3 million. The increase in net assets was due mainly to an increase in loans receivable.

Operating expenses of the Water Pollution Control Revolving Fund program were 3.8% less than FY2005.

During the fiscal year the Fund had operating revenue that exceeded operating expenses by \$1,664,974. This is a 42.6% increase over last fiscal year and is due to increases in revenue from administrative fees and interest income on loans plus decreases in central support allocation of overhead expense and contractual expense.

The Fund's operating revenue of \$3.383 million was a 14.6% increase over FY2005. This increase, again, 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 four years.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets, and Statement of Cash Flows on pages 9 to 12, respectively, 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 29 to 31.

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.

State law also provides that the West Virginia Water Development Authority (WDA) be responsible for monitoring detailed financial transactions of the CWSRF. WDA assists DEP in loan closings, repayments monitoring, and other financial transactions. WDA is a State bond bank that has been in existence for over 25 years.

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
- On-Site 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)

| | <u>2006</u> | <u>2005</u> |
|-----------------------------|----------------|-------------------|
| Current assets | \$ 100,234 | \$ 90,407 |
| Non current assets | 357,780 | 339,309 |
| Total assets | <u>458,014</u> | <u>429,716</u> |
| Current liabilities | (45) | (88) |
| Other liabilities | (362) | (329) |
| Total liabilities | <u>(407)</u> | <u>(417)</u> |
| Net assets: | | |
| Total restricted net assets | <u>457,607</u> | <u>\$ 429,299</u> |

The net assets increased by \$28.3 million or around 6.6% during the fiscal year ended June 30, 2006. Fiscal Year 2006 represented the receipt of the 15th 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. "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, our 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)

| | <u>2006</u> | <u>2005</u> |
|--|------------------|------------------|
| Operating revenues: | | |
| Interest income on loans | \$ 1,954 | \$ 1,744 |
| Administration fees on loans | 1,429 | 1,210 |
| | <u>3,383</u> | <u>2,954</u> |
| Operating expenses | <u>1,718</u> | <u>1,786</u> |
| Total operating income | 1,665 | \$ 1,168 |
| Non-operating revenue: | | |
| Investment income | <u>3,033</u> | <u>\$ 1,344</u> |
| Income before capital grants and contributions | 4,698 | 2,512 |
| Capital grants and contributions | <u>23,609</u> | <u>39,785</u> |
| Change in net assets | <u>\$ 28,307</u> | <u>\$ 42,297</u> |

Revenue for fiscal year 2006 was positively impacted by a \$1.689 million increase in investment income. This was due to a recovery of the rate of return on investments. The rate at June 30, 2006 and 2005, respectively, was 5% and 3%.

Capital Asset and Debt Administration

The Fund does not own any land, buildings, equipment or infrastructure.

Significant Facts, Decisions or Conditions

Our grant award for FY 2006 was \$16,798,100 with a required state match of \$3,359,620. This latest award was actually an amendment to the FY2005 grant. The state match was provided by the West Virginia Infrastructure and Jobs Development Council and deposited in the CWSRF account.

MANAGEMENT'S DISCUSSION AND ANALYSIS

-UNAUDITED-

The average federal allocation had been \$20 million through FY2004. The 2005 federal allocation dropped to \$16,798,100. The FY2006 capitalization grant award represents an 18% reduction from the previous federal grant received and was awarded on September 27, 2006 for \$13,650,912 to the CWSRF. Finally, the President's proposed budget for FY2007 cuts the federal funding levels once again by 22% for the CWSRF program.

The CWSRF program experienced a decline in FY2006 in terms of loan assistance provided to projects initiating construction. Certainly the effects of the 2005 hurricane season played a major role in affecting pipe availability, prices and ultimately, the bidding of projects. It is hoped that in calendar years 2006 and 2007 the construction industry will return to normal stability so that more projects are able to bid and begin construction. A multi-agency task force initiated by the Contractor's Association meets often to discuss issues of importance to the construction industry.

The number of loans in monetary and technical default decreased during FY2006. The West Virginia Water Development Authority monitors all of these situations and takes appropriate action, when necessary, to cure these deficiencies. A detailed report on each of these entities with loan deficiencies is contained in the CWSRF annual report for FY2006. There is one (1) loan for approximately \$15.5 million in default that equates to a delinquency rate of 3.2%. The major reasons for this lone default is delayed construction hook up of another community that was unable to make payments and contractor problems. All customers were online as of May 2006 and revenues were close to what was anticipated. The Fund does not expect a permanent default and anticipates the loan recipient will continue to reduce the default amount in coming months.

Deficiencies in reserves decreased by \$300,000. Restrictions placed by the Public Service Commission (PSC), decrease in water usage, and population decline are the main causes for loan recipients using their reserves to make loan principal payments. Seven of the sixteen with deficient reserves are requesting or have rate increases before the PSC.

Previously, a policy placed a ceiling of 50% of the current year's available loan funds to any single recipient. The demand for SRF funds has exceeded the availability of funds. In FY2006, the policy restricting maximum allowable funds was lifted. This practice will be reviewed annually.

Beginning in FY2005, we established a plan for multimillion-dollar projects that cannot be scoped down to a reasonable cost. In this plan a specific dollar amount of the SRF participation is committed to a Bond Anticipation Note (BAN). Each year the SRF will commit an amount in repayment funds based on the amount of the BAN. The loan will be closed 6 to 9 months following proposed construction completion. Repayment will begin the first full Municipal Bond Commission quarter following loan closing. During FY2006 one of these multimillion-dollar projects occurred.

MANAGEMENT'S DISCUSSION AND ANALYSIS

-UNAUDITED-

During FY2006 a programmatic change was made in which all future loan commitments made in FY2007 and the remainder of FY2006 were designated as "non-equivalency", meaning no federal requirements would be imposed on these loan recipients. This action will help to reduce the overall project costs on future projects.

Also during FY06, the Division of Water and Waste Management reorganized which affected the CWSRF program. Both the Engineering and the Management Sections were moved back under one Assistant Director of the Division. This has improved program efficiency and effectiveness. Also in May 2006, a new "acting" leader of the Engineering Section was named to replace the previous section leader who moved to a different position within the CWSRF program.

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, 2006 and 2005

| | 2006 | 2005 |
|--|----------------|----------------|
| <u>ASSETS</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 80,505,357 | \$ 72,418,411 |
| Receivables: | | |
| Due from U.S. Environmental Protection Agency | 58,187 | 84,534 |
| Due from West Virginia Department of Environmental Protection | 23,835 | 61,367 |
| Interest on loans | 171,246 | 164,778 |
| Administrative fees on loans | 123,584 | 115,336 |
| Current maturities of loans receivable | 19,352,073 | 17,562,557 |
| Total current assets | 100,234,282 | 90,406,983 |
| Loans receivable, net of current maturities | 357,779,681 | 339,309,386 |
| Total assets | \$ 458,013,963 | \$ 429,716,369 |
| <u>LIABILITIES</u> | | |
| Current liabilities: | | |
| Accounts payable | 28,947 | 30,515 |
| Due to WV Department of Environmental Protection | 15,921 | 57,153 |
| Total current liabilities | 44,868 | 87,668 |
| Compensated absences | 362,468 | 329,396 |
| Total liabilities | 407,336 | 417,064 |
| <u>NET ASSETS</u> | | |
| Net assets, restricted | 457,606,627 | 429,299,305 |
| Total net assets | \$ 457,606,627 | \$ 429,299,305 |

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, 2006 and 2005

| | 2006 | 2005 |
|--------------------------------------|----------------|----------------|
| Operating revenues: | | |
| Interest on loans | \$ 1,954,190 | \$ 1,743,276 |
| Administrative fees | 1,429,254 | 1,210,160 |
| | 3,383,444 | 2,953,436 |
| Operating expenses: | | |
| Personnel costs | 1,276,035 | 1,238,064 |
| Other administrative costs | 442,435 | 547,851 |
| | 1,718,470 | 1,785,915 |
| Total operating income | 1,664,974 | 1,167,521 |
| Non-operating revenues: | | |
| Investment income | 3,032,925 | 1,344,120 |
| | 4,697,899 | 2,511,641 |
| Capital grants and contributions: | | |
| U.S. Environmental Protection Agency | 20,241,737 | 31,477,847 |
| State of West Virginia | 3,367,686 | 8,307,321 |
| | 23,609,423 | 39,785,168 |
| Change in net assets | 28,307,322 | 42,296,809 |
| Net assets, beginning of year | 429,299,305 | 387,002,496 |
| Net assets, end of year | \$ 457,606,627 | \$ 429,299,305 |

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, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|---|----------------------|----------------------|
| Operating activities: | | |
| Cash payments for: | | |
| Loans originated | \$(37,879,655) | \$(60,671,635) |
| Personnel expenses | (1,251,295) | (1,262,898) |
| Administrative expenses | (439,371) | (578,760) |
| Cash receipts for: | | |
| Principal repayments | 17,619,844 | 15,909,323 |
| Interest on loans revenue | 1,947,722 | 1,720,212 |
| Administrative fee revenue | 1,421,006 | 1,188,416 |
| | <u>(18,581,749)</u> | <u>(43,695,342)</u> |
| Net cash used in operating activities | | |
| Capital and related financing activities: | | |
| Decrease in escrow for Hinton projects | - | (768,126) |
| Capital grants and contributions from the U.S. Environmental Protection Agency | 20,268,084 | 34,346,928 |
| Capital grants and contributions from the State of West Virginia | 3,367,686 | 8,307,321 |
| | <u>23,635,770</u> | <u>41,886,123</u> |
| Net cash provided by capital and related financing activities | | |
| Investing activities: | | |
| Investment income | 3,032,925 | 1,344,120 |
| | <u>8,086,946</u> | <u>(465,099)</u> |
| Net increase (decrease) in cash | | |
| Cash and cash equivalents balance, beginning of year | <u>72,418,411</u> | <u>72,883,510</u> |
| Cash and cash equivalents, end of year | <u>\$ 80,505,357</u> | <u>\$ 72,418,411</u> |

(Continued)

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

STATEMENT OF CASH FLOWS
(Continued)

Years Ended June 30, 2006 and 2005

Reconciliation of operating income to cash used in operating activities:

| | <u>2006</u> | <u>2005</u> |
|--|-----------------------|-----------------------|
| Operating income | \$ 1,664,974 | \$ 1,167,521 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Increase in loans receivable, net | (20,259,811) | (44,762,312) |
| (Increase) decrease in other receivables | 22,816 | (82,568) |
| Increase (decrease) in due to WV Department of Environmental Protection | (41,232) | 35,283 |
| Increase (decrease) in compensated absences | 33,072 | (28,349) |
| Decrease in accounts payable | (1,568) | (24,917) |
| | <u>\$(18,581,749)</u> | <u>\$(43,695,342)</u> |

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, 2006, Congress authorized the EPA to award \$363,872,475 in capital grants and contributions to the Fund. The State of West Virginia is required to contribute \$72,798,072 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
(Continued)

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) as of June 30, 2006 and the West Virginia Investment Management Board (IMB) as of June 30, 2005, which are carried at market value, which approximates cost. These deposits are not separately identifiable as to specific types of securities. Such funds are available to the Fund with overnight notice.

Use of Estimates

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

Loans Receivable

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

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

The Fund's accrued compensated absences totaled \$362,468 and \$329,396 at June 30, 2006 and 2005, respectively, for estimated unfunded obligations that may arise in connection with compensated absences for vacation and sick leave. Employees fully vest in all earned but unused vacation. In accordance with State personnel policies, employees hired prior to July 1, 2001 vest in unused sick leave only upon retirement, at which time such unused leave can be converted into employer paid premiums for postretirement health care coverage or additional periods of credited service for purposes of determining retirement benefits. Employees hired subsequent to June 30, 2001 do not vest in unused sick leave.

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 (Continued)

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, the BTI, and the IMB.

At June 30, 2006 and 2005, the balances with each were as follows:

Table with 2 columns (2006, 2005) and 4 rows (State Treasurer's Office, BTI, IMB, Total) showing cash balances.

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 as of June 30, 2006 and the IMB as of June 30, 2005 for investment in accordance with the West Virginia Code, policies set by the BTI and IMB, and provisions of bond indentures and trust agreements when applicable. The Fund's cash balances are invested with the BTI and IMB in investment pools.

Deposits with BTI and IMB at June 30, 2006 and 2005, were invested in two investment pools as follows:

Table with 2 columns (2006, 2005) and 3 rows (Cash liquidity pool, Government money market pool, Total investments) showing investment pool balances.

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

The following information addresses risks associated with deposited investments with the BTI as of June 30, 2006:

Cash Liquidity 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 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 cash liquidity pool's investments:

| Security Type | Moody's | S&P | Carrying Value | Percent of Assets |
|----------------------------|---------|-----|------------------|----------------------|
| Commercial paper | P1 | A-1 | \$ 943,057,000 | 54.14% |
| U.S. treasury bills | Aaa | AAA | 306,279,000 | 17.58% |
| Corporate notes | Aaa | AAA | 61,992,000 | 3.56% |
| Corporate notes | Aa | AA | 55,063,000 | 3.16% |
| Corporate notes | Aa | A | 12,000,000 | .69% |
| Certificates of deposit | P1 | A-1 | 99,000,000 | 5.68% |
| U.S. agency bonds | Aaa | AAA | 43,663,000 | 2.51% |
| U.S. agency discount notes | P1 | A-1 | 93,851,000 | 5.39% |
| Money market funds | Aaa | AAA | 758,000 | 0.04% |
| Total rated investments | | | \$ 1,615,663,000 | 92.75% |

Unrated securities include certificates of deposit of \$23,800,000 and repurchase agreements of \$102,339,000. Acceptable collateral for the repurchase agreements include U.S. Treasury and government agency securities, all of which carry the highest credit rating.

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

Cash Liquidity Pool (Continued)

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single corporate issuer.

West Virginia statutes prohibit the cash liquidity pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2006, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

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.

At June 30, 2006, the cash liquidity pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the BTI. Securities lending collateral that is reported in the BTI's audited Statement of Fiduciary Net Assets is invested in the lending agent's money market fund in the BTI's name.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

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

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THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

Cash Liquidity Pool (Continued)

Interest rate risk (Continued)

The following table provides information on the weighted average maturities for the various asset types in the Cash Liquidity Pool.

| Security Type | Carrying Value | WAM |
|----------------------------|------------------|-----|
| Commercial paper | \$ 943,057,000 | 25 |
| U. S. Treasury bills | 306,279,000 | 32 |
| Corporate notes | 129,055,000 | 77 |
| Certificates of deposit | 122,800,000 | 105 |
| U.S. Agency bonds | 43,663,000 | 208 |
| Repurchase agreements | 102,339,000 | 3 |
| U.S. Agency discount notes | 93,851,000 | 89 |
| Money market funds | 758,000 | 1 |
| Total assets | \$ 1,741,802,000 | 42 |

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 cash liquidity pool has no securities that are subject to foreign currency risk.

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 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.

THE WEST VIRGINIA WATER POLLUTION CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS (Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

Government Money Market Pool (Continued)

Credit risk (Continued)

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

| Security Type | Moody's | S&P | Carrying Value | Percent of Assets |
|----------------------------|---------|-----|-----------------------|-------------------|
| U.S. Agency bonds | Aaa | AAA | \$ 21,420,000 | 11.76% |
| U.S. Treasury bills | Aaa | AAA | 28,346,000 | 15.56% |
| U.S. Agency discount notes | P1 | A-1 | 112,399,000 | 61.70% |
| Money market funds | Aaa | AAA | 109,000 | 0.06% |
| | | | <u>\$ 162,274,000</u> | <u>89.08%</u> |

Unrated securities include repurchase agreements of \$19,900,000. Acceptable collateral for the repurchase agreements include U.S. Treasury and government agency securities, all of which carry the highest credit rating.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single corporate issuer.

West Virginia statutes prohibit the government money market pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2006, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

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.

At June 30, 2006, the government money market pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the BTI. Securities lending collateral that is reported in the BTI's audited Statement of Fiduciary Net Assets is invested in the lending agent's money market fund in the BTI's name.

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

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.

The overall weighted average maturity of the investments of the 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 Government Money Market Pool:

| Security Type | Carrying Value | WAM (days) |
|----------------------------|----------------|------------|
| U.S. Agency discount notes | \$ 112,399,000 | 39 |
| U.S. Agency bonds | 21,420,000 | 152 |
| Repurchase agreements | 19,900,000 | 3 |
| U. S. Treasury bills | 28,346,000 | 42 |
| Money market funds | 109,000 | 1 |
| Total assets | \$ 182,174,000 | 49 |

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 government money market pool has no securities that are subject to foreign currency risk.

Securities lending

At June 30, 2006, the fair value of securities on loan and the collateral held by the pools of the BTI are as follows. The collateral received as cash is invested in the Mellon GSL DBT II Collateral Fund. For securities loaned at June 30, 2006, 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. There were no losses during the year resulting from borrower default, and there was no significant violations of legal or contractual provision.

THE WEST VIRGINIA WATER POLLUTION CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS (Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

Government Money Market Pool (Continued)

Securities lending (Continued)

| | Fair Value of Securities on Loan | Collateral Held |
|------------------------------|--|--------------------|
| Cash Liquidity Pool | \$ 292,400,158 | \$ 298,223,109 |
| Government Money Market Pool | 33,839,603 | 34,512,885 |
| Total | \$ 326,239,761 | \$ 332,735,994 |

4 - LOANS RECEIVABLE

As of June 30, 2006 and 2005, 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, 2006 and 2005, 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 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 approved financial institutions who in turn make loans to eligible recipients based on approved projects. The financial institutions assume credit risk for the loans to the eligible recipients.

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - LOANS RECEIVABLE (Continued)

As of June 30, 2006, one loan with an original amount of \$15,596,291 is in default status with a reserve account balance of \$82,827 and a required reserve account balance of \$173,293. Sixteen loans outstanding have cumulative deficiencies in reserve fund balances of \$1,231,527.

Total cumulative loans authorized as of June 30, 2006 and 2005 were as follows:

| | 2006 | | 2005 | |
|----------------------|-----------------------|----------------------|-----------------------|----------------------|
| | Loans Authorized | Remaining Commitment | Loans Authorized | Remaining Commitment |
| Completed projects | \$ 386,145,692 | \$ - | \$ 355,545,979 | \$ - |
| Projects in progress | 113,163,589 | 21,426,151 | 123,559,119 | 39,101,842 |
| | <u>\$ 499,309,281</u> | <u>\$ 21,426,151</u> | <u>\$ 479,105,098</u> | <u>\$ 39,101,842</u> |

Loans mature at various intervals through December 1, 2045. 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 \$21 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, 2006.

The scheduled principal payments on all loans maturing in subsequent years are as follows at June 30, 2006:

| | |
|------------------------------------|-----------------------|
| 2007 | \$ 19,352,073 |
| 2008 | 20,119,582 |
| 2009 | 20,635,710 |
| 2010 | 20,697,116 |
| 2011 | 20,624,334 |
| Thereafter | 297,129,090 |
| | <u>398,557,905</u> |
| Less current maturities | 19,352,073 |
| | <u>379,205,832</u> |
| Less authorized, but not disbursed | 21,426,151 |
| | <u>\$ 357,779,681</u> |

THE WEST VIRGINIA WATER POLLUTION CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS (Continued)

4 - LOANS RECEIVABLE (Continued)

Loans to Major Local Agencies

As of June 30, 2006 and 2005, the Fund has authorized loans to nineteen separate entities, respectively, that exceed \$7 million each. The outstanding balances of these loans represent approximately 66% and 67% of the total loans receivable as of June 30, 2006 and 2005, respectively, as follows:

Table with 4 columns: Local Agency, Authorized Loan Amount, June 30, 2006 Balance, June 30, 2005 Balance. Lists agencies like Beckley, Berkeley County PSSD, Bluefield, etc., with their respective loan amounts and balances.

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

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 2006 and 2005, the Fund owed \$15,921 and \$57,153, respectively to the Department and \$19,184 and \$16,717, respectively, to the West Virginia Water Development Authority.

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, 2006, 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 |
| Total | <u>\$ 363,872,475</u> | <u>\$ 72,798,076</u> |

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - CAPITAL GRANTS AND CONTRIBUTIONS (Continued)

Subsequent to June 30, 2006, the Fund had applied for additional funding from the EPA under the Clean Water Act in the amount of \$13,650,912 and the respective matching funds from the State of West Virginia of \$2,730,182. As of the date of this report, the award notification had not been received.

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, 2006.

| 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 |
| Total | \$ 360,205,878 | \$ 72,782,599 | \$ 432,988,477 |

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 WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

7 - RISK MANAGEMENT (Continued)

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), a state government mandated private business entity, and the West Virginia Public Employees Insurance Agency (PEIA). In exchange for the payment of premiums to PEIA and the Commission, 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, stop gap liability, wrongful act liability, and comprehensive auto liability. Such coverage is offered in exchange for an annual premium.

8 - RETIREMENT BENEFITS

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, Building 5, Room 1000, State Capitol Complex, Charleston, West Virginia 25305-0720.

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.

Covered employees are required to contribute 4.5% of their salary to the PERS, and the Fund is required to contribute 10.5% of covered employees' salaries to the PERS. The required employee contribution percentage has been established and changed from time to time by action of the State Legislature. The employer contribution percentage has been

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - RETIREMENT BENEFITS (Continued)

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 2006, 2005, and 2004 are as follows:

| | 2006 | 2005 | 2004 |
|-------------------------------|-------------------|-------------------|-------------------|
| Fund contributions (10.5%) | \$ 97,967 | \$ 98,588 | \$ 96,709 |
| Employee contributions (4.5%) | 44,497 | 42,908 | 42,105 |
| Total contributions | <u>\$ 142,464</u> | <u>\$ 141,496</u> | <u>\$ 138,814</u> |

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

SCHEDULES OF INDIVIDUAL FUND ACTIVITY

SCHEDULE OF ASSETS, LIABILITIES, AND NET ASSETS

June 30, 2006

| Assets: | Administrative Fee Fund | Loan Fund | Combined Fund Totals |
|--|----------------------------|-----------------------|-------------------------|
| Cash equivalents | \$ 4,003,650 | \$ 76,501,707 | \$ 80,505,357 |
| Receivables: | | | |
| Due from U.S. Environmental Protection Agency | - | 58,187 | 58,187 |
| Due from West Virginia Department of Environmental Protection | 20,867 | 2,968 | 23,835 |
| Interest on loans | - | 171,246 | 171,246 |
| Administrative fees on loans | 123,584 | - | 123,584 |
| Loans receivable | - | 377,131,754 | 377,131,754 |
| Total assets | <u>\$ 4,148,101</u> | <u>\$ 453,865,862</u> | <u>\$ 458,013,963</u> |
| Liabilities: | | | |
| Accounts payable | 28,946 | 1 | 28,947 |
| Due to WV Department of Environmental Protection | - | 15,921 | 15,921 |
| Compensated absences | <u>362,468</u> | <u>-</u> | <u>362,468</u> |
| Total liabilities | <u>391,414</u> | <u>15,922</u> | <u>407,336</u> |
| Restricted net assets | <u>\$ 3,756,687</u> | <u>\$ 453,849,940</u> | <u>\$ 457,606,627</u> |

See Independent Auditors' Report.

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THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

SCHEDULES OF INDIVIDUAL FUND ACTIVITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS

Year Ended June 30, 2006

| | Administrative Fee Fund | Loan Fund | Combined Fund Totals |
|----------------------------------|----------------------------|-----------------------|-------------------------|
| Operating revenues: | | | |
| Interest income on loans | \$ - | \$ 1,954,190 | \$ 1,954,190 |
| Administration fees on loans | 1,429,254 | - | 1,429,254 |
| Total revenues | <u>1,429,254</u> | <u>1,954,190</u> | <u>3,383,444</u> |
| Operating expenses: | | | |
| Personnel costs | 563,088 | 712,947 | 1,276,035 |
| Other administrative costs | 82,569 | 359,866 | 442,435 |
| Total expenses | <u>645,657</u> | <u>1,072,813</u> | <u>1,718,470</u> |
| Operating income | 783,597 | 881,377 | 1,664,974 |
| Non-operating revenue: | | | |
| Investment income | 135,179 | 2,897,746 | 3,032,925 |
| Capital grants and contributions | - | 23,609,423 | 23,609,423 |
| Net assets, beginning of year | <u>2,837,911</u> | <u>426,461,394</u> | <u>429,299,305</u> |
| Net assets, end of year | <u>\$ 3,756,687</u> | <u>\$ 453,849,940</u> | <u>\$ 457,606,627</u> |

SCHEDULE OF CASH FLOWS

Year Ended June 30, 2006

| | Administrative Fee Fund | Loan Fund | Combined Fund Totals |
|--|----------------------------|------------------------|-------------------------|
| Operating activities: | | | |
| Cash payments for: | | | |
| Loans originated | \$ - | \$(37,879,655) | \$(37,879,655) |
| Personnel expenses | (526,125) | (725,170) | (1,251,295) |
| Administrative expenses | (20,234) | (419,137) | (439,371) |
| Cash receipts for: | | | |
| Principal repayment | - | 17,619,844 | 17,619,844 |
| Interest on loans revenue | - | 1,947,722 | 1,947,722 |
| Administrative fee revenue | <u>1,421,006</u> | <u>-</u> | <u>1,421,006</u> |
| Net cash provided by (used in) operating activities | <u>\$ 874,647</u> | <u>\$ (19,456,396)</u> | <u>\$ (18,581,749)</u> |

See Independent Auditors' Report.

THE WEST VIRGINIA WATER POLLUTION CONTROL REVOLVING FUND

SCHEDULES OF INDIVIDUAL FUND ACTIVITY

SCHEDULE OF CASH FLOWS (Continued)

Year Ended June 30, 2006

| | Administrative Fee Fund | Loan Fund | Combined Fund Totals |
|---|----------------------------|---------------------|-------------------------|
| Capital and related financing activities: | | | |
| Capital grants and contributions | \$ - | \$ 23,635,770 | \$ 23,635,770 |
| Investing activities: | | | |
| Investing income | 135,179 | 2,897,746 | 3,032,925 |
| Net increase in cash | 1,009,826 | 7,077,120 | 8,086,946 |
| Cash equivalents, beginning of year | 2,993,824 | 69,424,587 | 72,418,411 |
| Cash equivalents, end of year | 4,003,650 | 76,501,707 | \$ 80,505,357 |
| Reconciliation of operating income to cash used in operating activities: | | | |
| Operating income | 783,597 | 881,377 | \$ 1,664,974 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Increase in loans receivable | - | (20,259,811) | (20,259,811) |
| Increase in other receivables | (8,248) | (6,468) | (14,716) |
| (Increase) decrease in due from WV Department of Environmental Protection | 39,646 | (2,114) | 37,532 |
| Decrease in due to WV Department of Environmental Protection | - | (41,232) | (41,232) |
| Increase in compensated absences | 33,072 | - | 33,072 |
| Increase (decrease) in accounts payable | 26,580 | (28,148) | (1,568) |
| | <u>874,647</u> | <u>(19,456,396)</u> | <u>(18,581,749)</u> |

See Independent Auditors' Report.

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

West Virginia Water Pollution Control Revolving Fund
Charleston, West Virginia

Compliance

We have audited the compliance of 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 Fund for the year ended June 30, 2006. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the *EPA's 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.

In our opinion, the Fund complied, in all material respects, with the requirements referred to above that are applicable to the *Capitalization Grant for Clean Water State Revolving Fund* for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with *Government Auditing Standards*, and *OMB Circular A-133* and is described in the accompanying schedule of findings and questioned costs as item 2005-1.

Internal Control Over Compliance

The management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Fund's internal control over compliance with requirements that could have a direct and material effect on its Capitalization Grant for Clean Water State Revolving Fund in order to determine 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 condition 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 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over compliance and its operation that we considered to be material weaknesses.

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

Heblons & Kawash

September 15, 2006

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2006-1 SUBRECIPIENT MONITORING

Criteria

All subrecipients of the Fund with continuing compliance requirements are required to submit an annual audit report. These audit reports must be reviewed by the Fund to provide reasonable assurance that the subrecipients comply with federal requirements, that audits are performed on federal funding supplied, and that corrective action is taken on all findings noted.

Condition

As of the date of our audit report the fund had not received 37 (42%) of 88 subrecipient audit reports that are required to be analyzed and reviewed by management of the Fund to comply with federal requirements. The following summarizes subrecipient audit reports not yet received by year:

| | |
|---------------|---|
| June 30, 2005 | 19 (51%) of 37 subrecipient audit reports were not received by the date of this audit report. |
| June 30, 2004 | 10 (40%) of 25 subrecipient audit reports were not received by the date of this audit report. |
| June 30, 2003 | 8 (31%) of 26 subrecipient audit reports were not received by the date of this audit report. |

Questioned Costs

None

Context

As of the date of our audit report the Fund had disbursed the following amounts to the subrecipients noted above:

| | |
|---------------|---|
| June 30, 2005 | The 19 subrecipients for the year that have not submitted audit reports represent \$26,417,055 (44%) of total subrecipient disbursements of \$60,431,460. |
| June 30, 2004 | The 10 subrecipients for the year that have not submitted audit reports represent \$13,430,548 (30%) of total subrecipient disbursements of \$44,351,637. |

THE WEST VIRGINIA WATER POLLUTION
CONTROL REVOLVING FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2006-1 SUBRECIPIENT MONITORING (Continued)

Context (Continued)

June 30, 2003

The 8 subrecipients for the year that have not submitted audit reports represent \$3,671,378 (12%) of total subrecipient disbursements of \$31,894,951.

Effect

Subrecipient internal control matters or noncompliance may not be reported to the Fund in a timely manner for corrective action, follow-up, and resolution.

Although other monitoring procedures are in place, the Fund is unable to timely determine the existence of material noncompliance or internal control issues with subrecipients that may be identified through the audit process.

Cause

Subrecipient audits by independent certified public accountants and the Chief Inspector's Division of the West Virginia State Auditor's Office are not being performed or issued in a timely manner. Therefore, the Fund is unable to complete desk review audits in a timely manner.

Recommendation

The Fund should continue to monitor the status of subrecipient audit reports and provide technical assistance to ensure that management and the governing body of the subrecipients understand the importance of filing timely audit reports.

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

DUE DATES (Forms 1-16) :
Draft Sept 15, Final Oct. 16 2006

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GAAP TRANSMITTAL FORM

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

THE FOLLOWING GAAP REPORTING FORMS ARE ATTACHED:

| FORMS | DATE | | N/A |
|--|-----------|-----------|-----|
| | COMPLETED | | |
| WVFIMS OPENING BALANCE REPORTS Verify the WVFIMS balance sheet, revenues, and expenditures (expenses) reports. | Due 8/30 | | |
| AUDIT NOTIFICATION FORM | | 9/27/2006 | *** |
| UNBUDGETED LIABILITIES | Due 8/30 | 7/31/2006 | |
| FINANCIAL STATEMENTS | | | |
| FORM 1- BALANCE SHEET | | | X |
| FORM 1A- STATEMENT OF NET ASSETS | | | X |
| FORM 2- STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES | | | X |
| FORM 2A- STATEMENT OF ACTIVITIES | | | X |
| FORM 3- STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS | | | X |
| FORM 4- STATEMENT OF CASH FLOWS | | | X |
| NET ASSETS | | | |
| FORM 5- NET ASSET RESTATEMENTS | | | X |
| FORM 6- RESTRICTED NET ASSETS/RESERVED FUND EQUITY | | | X |
| DEPOSITS & INVESTMENTS | | | |
| FORM 7- DEPOSITS DISCLOSURE | | 9/27/2006 | |
| TRANS TREASURER - OUTSIDE BANK ACCOUNTS | | | X |
| FORM 8- INVESTMENTS DISCLOSURE | | 9/27/2006 | ** |
| FORM 8A- DEPOSITS AND INVESTMENTS RECONCILIATION | | 9/27/2006 | |
| RECEIVABLES & PAYABLES | | | |
| FORM 9- RECEIVABLES | | | X |
| FORM 10- DUE FROM OTHER FUNDS- PG | | | X |
| FORM 10A- DUE TO OTHER FUNDS- PG | | | X |
| AGENCY LISTING | | | X |
| FORM 11- DUE FROM/TO OTHER FUNDS-CU | | | X |
| CAPITAL ASSETS | | | |
| FORM 12- CAPITAL ASSETS | | | X |
| LONG-TERM DEBT | | | |
| FORM 13- CHANGES IN LONG-TERM OBLIGATIONS | | | X |
| FORM 14- DEBT PAYMENT SCHEDULE | | | X |
| OPERATING TRANSFERS | | | |
| FORM 15- TRANSFERS IN/OUT | | | X |
| SINGLE AUDIT | | | |
| FORM 16- PRIOR YEAR AUDIT FINDINGS | | | |

* NOTE: If sufficient information is displayed in the Audited financial statements, the optional forms may be omitted.

** Form changed from prior year

*** New form

Jennifer R. Paxton
PREPARED BY

(304) 926-0499 ext. 1565

TELEPHONE NUMBER

DATE

PLEASE SEND COMPLETED TRANSMITTAL AND COMPLETED FORMS TO:
State of West Virginia
Financial Accounting and Reporting Section
2101 Washington Street East
Building 17, 3rd Floor
Charleston, WV 25305

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

See Independent Auditors' Report.

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

GAAP REPORTING FORM - DEPOSITS AND INVESTMENTS RECONCILIATION

Audited Agency: WV Water Pollution Control Revolving Fund

Per GASB Statement 40 the Institution must disclose its deposit policy. The deposit policy must be formally adopted through legal or contractual provisions. Disclosure of any statutory policies are also required. Please provide in the space below the Institution's deposit policy.

| | Carrying Amount | Restricted Carrying Amount | Total Carrying Amount | Bank Balance | Insured Amount | Collateralized Amount | Uncollateralized Amount | Collateralized with securities held by the pledging financial institution but not in the name of the depositor | Collateralized with securities held by the pledging financial institution but not in the name of the depositor | Foreign Currency Risk | |
|-------------------------------------|-----------------|----------------------------|-----------------------|--------------|----------------|-----------------------|-------------------------|--|--|-----------------------|----------|
| | | | | | | | | | | Currency Type | Maturity |
| Cash with Treasurer | | | | | | | | | | | |
| Per Opening Balance Report | | | | | | | | | | | |
| Cash with Municipal Bond Commission | 0 | | 0 | | | | | | | | |
| Cash on Hand | | | | | | | | | | | |
| Cash in Transit to WVFIMS | | | | | | | | | | | |
| Cash with Board of Trustees | | | | | | | | | | | |
| Cash in Outside Bank Accounts | | | | | | | | | | | |
| Cash in Escrow | | | | | | | | | | | |
| Certificates of Deposits | | | | | | | | | | | |
| Other: | | | | | | | | | | | |
| Total | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

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

GAAP REPORTING FORM - DEPOSITS AND INVESTMENTS RECONCILIATION

Audited Agency WV Water Pollution Control Revolving Fund

Reconciliation of cash, cash equivalents and investments as reported in the financial statements to the amounts disclosed in the footnote:

Deposits:

| | |
|--|-----------------------------|
| Cash and cash equivalents as reported on balance sheet | \$ 80,505,357 |
| Less: cash equivalents disclosed as investments | <u>80,505,357</u> |
| Add: restricted assets disclosed as deposits | <u> </u> |
| Other (describe) _____ | <u> </u> |
| _____ | <u> </u> |
| _____ | <u> </u> |

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

Investments:

| | |
|---|----------------------------------|
| Investments as reported on balance sheet | \$ <u> </u> - |
| Add: restricted assets disclosed as investments | <u> </u> |
| Add: cash equivalents disclosed as investments | <u>80,505,357</u> |
| Other (describe) _____ | <u> </u> |
| _____ | <u> </u> |
| _____ | <u> </u> |

Reported amount of investments as disclosed on Form 8 \$ 80,505,357

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

GAAP REPORTING FORM - PRIOR YEAR AUDIT FINDINGS

Audited Agency WV Water Pollution Control Revolving Fund

1) Fiscal Year : 2005

2) Finding Number : 2005-1

Finding Name: Subrecipient Monitorong

3) CFDA Number or Grant/Contract Number: 66.468

4) The finding has been (check one):
 Resolved
 Partially resolved
 Not resolved

Please complete the following information:

Name of contact person: Ramona S. Dickson

Phone number of contact person: (304) 926-0499 ext. 1551

Anticipated completion date: _____

Resolution action taken to date: _____

DEP provides annually a listing of all payments to subrecipients to facilitate audit scheduling. Final ratio review has been expanded and tracking has been implemented to further assess subrecipient financial status and to monitor for trends. Monthly desk reviews have been expanded in fy 2006 to include subrecipient loan agreement compliance. Starting with audits reviewed in fiscal year 2006, that discuss the findings of the desk reviews are being sent to CID, WDA, PSC, the independent auditor, and the WV Water Pollution Control Revolving Fund program files in addition to the grante

Future plans for resolution (include proposed dates): The Department of Environmental Protection will work with other agencies to ensure timely audit reports. Audits will continue to be emphasized at loan closings and during inspections. Desk reviews continue monthly.