

**WEST VIRGINIA DRINKING WATER TREATMENT  
REVOLVING FUND**

**FINANCIAL REPORT**

**June 30, 2020**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the West Virginia Drinking Water Treatment Revolving Fund (the Fund), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Drinking Water Treatment Revolving Fund, as of June 30, 2020, and the changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As discussed in Note 2, the financial statements present only the West Virginia Drinking Water Treatment Revolving Fund and do not purport to, and do not present fairly the financial position of the State of West Virginia as of June 30, 2020, the changes in financial position, or, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Fund's basic financial statements. The accompanying information on page 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards on page 22 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The accompanying information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2020, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia  
October 5, 2020

# WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

### INTRODUCTION

Our discussion and analysis of the West Virginia Drinking Water Treatment Revolving Fund's (the "Fund") financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the Fund's financial statements, which begin on page 9.

### FINANCIAL HIGHLIGHTS

- Under the former American Recovery and Reinvestment Act (ARRA), the Drinking Water Treatment Revolving Fund was awarded \$19.5 million, of which \$19.25 million was to be distributed through the drinking water revolving loan program. Under the ARRA program at least 50% of the \$19,250,000 was required to be provided in the form of principal forgiveness loans (an approved loan type whereby the loan recipient is not required to repay the loan). The Fund closed fourteen (14) projects receiving ARRA funding over the life of the program. \$18.95 million of the \$19.25 million was provided in the form of principal forgiveness loans. The ARRA principal forgiveness loans are written off quarterly according to their respective debt service schedules. A total of \$16.99 million in ARRA principal forgiveness loans have been written off against the existing allowance for principal forgiveness since the inception of the program.
- The United States Environmental Protection Agency (the "EPA") authorized the Fund to issue principal forgiveness loans. These loans, which are issued to certain local government agencies or other eligible water providers will be forgiven on the 30th day of June in the fiscal year coinciding with the disbursement or on the last day of the month in which the last disbursement is made. These loans are deemed no longer outstanding after the last loan disbursement is forgiven. Therefore, it is the Fund's policy to maintain an allowance for principal forgiveness loans, equal to the amount of the disbursement, until the last disbursement is made. Consistent with the prior year, a large operating expense, loss on forgivable loans, was incurred due to the provisions of the EPA principal forgiveness loans. Total principal forgiveness loans disbursed during the fiscal year totaled \$1.3 million. The Fund's change in net position, therefore, consists of total revenues, less operating expenses and capital grants and contributions.
- The Fund's assets increased by \$7,678,144 or 4%. This is largely due to an increase in the investment of funds available for projects. The Fund's liabilities decreased \$5,567. This is largely due to a decrease in legal fees related to project review. The Fund's net position increased by \$7,683,711 or 4%.
- The Fund's revenues decreased by \$116,413 or approximately 5%. This is primarily due to an increase in administrative fees of \$23,494, offset by a decrease in investment earnings and interest on loans of \$138,902 and \$1,005 respectively.
- Capital grant and contribution awards from the EPA and the State of West Virginia (the "State") continue to provide the necessary resources to the Fund to carry out its mission. Federal and state awards for the Fund are described in footnote 5 in the accompanying financial statements. Capital grants and contributions received from the EPA and the State decreased by \$4,353,500 from the prior year.
- Ten (10) new loans were closed during the current year. Also, there are twelve (12) additional loans that are still under construction that were closed in prior years eight (8) of which are substantially complete but still have a remaining loan balance.

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

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

**USING THIS REPORT**

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

**THE FUND AS A WHOLE**

Assets of the Fund increased \$7,678,144 or 4%. The Fund has \$28,833 in liabilities as of the current fiscal year and \$34,400 in liabilities in the prior fiscal year ended June 30, 2019. This increase in assets approximates the increase in the Fund's net position. Our analysis that follows focuses on the net position (Table 1) and changes in net position (Table 2) of the Fund's activities.

**Table 1  
Statement of Net Position**

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Current Assets	\$ 53,028,747	\$ 45,359,670
Loans Receivable, less current maturities, net	<u>132,953,950</u>	<u>132,944,883</u>
<b>Total assets</b>	\$ 185,982,697	\$ 178,304,553
<b>Liabilities</b>		
Current Liabilities	<u>\$ 28,833</u>	<u>\$ 34,400</u>
<b>Net position</b>		
Restricted	<u><u>\$ 185,953,864</u></u>	<u><u>\$ 178,270,153</u></u>

(Continued)

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

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

**THE FUND AS A WHOLE (Continued)**

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

	2020	2019
<b>Revenues:</b>		
<b>Operating revenues:</b>		
Administrative fees	\$ 759,186	\$ 735,692
Interest on loans	859,865	860,870
Total operating revenues	<u>1,619,051</u>	<u>1,596,562</u>
<b>Investment earnings</b>	<u>624,275</u>	<u>763,177</u>
Total revenues	2,243,326	2,359,739
<b>Operating expenses</b>	<u>(1,420,367)</u>	<u>(3,452,565)</u>
Income (loss) before capital grants and contributions	<u>822,959</u>	<u>(1,092,826)</u>
<b>Capital grants and contributions</b>	<u>6,860,752</u>	<u>11,214,252</u>
<b>Increase in net position</b>	<u>\$ 7,683,711</u>	<u>\$ 10,121,426</u>

Most of the increase in the Fund's assets and net position is attributable to both the capital grants and contributions received in the current year from the EPA in the amount of \$4,659,952 and the State match through the West Virginia Infrastructure and Jobs Development Council in the amount of \$2,200,800 totaling \$6,860,752. Of the \$4,659,952 received from the EPA in the current year, \$510,955 was disbursed with an agreed 100% loan forgiveness feature. 100% of the EPA amount was for eligible costs reviewed and approved by the Fund and was disbursed as loans to local governmental agencies to assist in drinking water infrastructure projects and is included on the balance sheet in "Loans Receivable." The \$2,200,800 received from the State during the current year in matching funds, was disbursed during the year. In addition, \$1,972,451 in cumulative investment earnings on current and previous State match amounts have been committed to drinking water infrastructure projects but have not yet been expended. These moneys are invested with the West Virginia Board of Treasury Investments and are included on the balance sheet as "Cash Equivalents."

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

Capital grant income from the EPA is recognized after the Fund has reviewed and approved supporting invoices for disbursements of loan proceeds to local governmental agencies and the federal portion of those disbursements has been received by the Fund. Capital grant income from the EPA decreased \$4,332,900 from the prior year. The sources of funding for loans to local governmental agencies, besides the capital grant income from the EPA, and the State match, include revolving loan repayments, and investment earnings, both of which have increased \$222,962 from prior year. Ten (10) loans closed during the current year, totaling \$3,520,050. Five (5) loan closed in the first quarter, three (3) in the second quarter, one (1) closed in the third quarter, and one (1) closed in the fourth quarter.

(Continued)



## **WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

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

#### **THE FUND AS A WHOLE (Continued)**

Total revenues, including operating revenues and investment earnings equaled \$2,243,326. This was a decrease of \$116,413 from prior year. This was attributed to an increase in administrative fees of \$23,494 over the prior year, offset by a decrease in investment earnings of \$138,902, and a decrease in interest on loans of \$1,005.

The ten loans that closed in the current year totaled \$3,520,050. The amounts disbursed for these loans totaled \$2,947,211 of which \$965,415 represented federal funds, \$1,225,516 represented state match, and \$756,280 represented proceeds from loan repayment. The amount disbursed during the current year for loans closed in prior years totaled \$6,056,591 of which \$3,694,538 represented federal funds with \$61,824 of those funds having principal forgiveness features, \$1,595,581 represented State match with \$33,974 of those funds having principal forgiveness features, and \$766,472 represented proceeds from loan repayments with \$245,385 having principal forgiveness features. The sum of all disbursements for the years ended June 30, 2020 and 2019 was \$9,003,802 and \$12,602,528, respectively.

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

As of June 30, 2020, the Fund had outstanding binding commitments to loan to qualified recipients of \$3,413,050 and a \$5,913,186 grant awarded by the EPA but not yet disbursed for approved drinking water infrastructure projects. Funding for approved projects will come from resources currently available to the Fund such as loan repayments as well as federal capital grants and State matches to be paid to the Fund in future periods. As of the year ended June 30, 2020 the Fund has \$42,483,982 in cash equivalents available for these projects. Additionally, the Fund has \$396,221 of cash equivalents from user fees obtained from a State Settlement with the West Virginia American Water Company in 2004. These funds will be used for future drinking water infrastructure projects.

The West Virginia Bureau for Public Health submitted an application to the EPA for a grant for the Fund for the fiscal year 2020 grant period and is currently awaiting approval of an award in the amount of \$11,011,000. The \$2,202,200 State match has been committed to the Fund in order to secure the federal funds. The total of \$13,213,200, awarded to the Fund, will be used to provide no-interest or low-interest traditional or principal forgiveness featured loans to assist in financing approved drinking water infrastructure projects.

The 2020 EPA Capitalization Grant awarded for fiscal year 2020 contained a provision which requires that not less than twenty (20) percent be provided to eligible water system loan recipients in the form of grants, negative interest, or principal forgiveness. Furthermore, in a state in which such an emergency declaration has been issued, the recipient may use more than twenty (20) percent of the funds made available for capitalization grants to provide additional subsidy to eligible recipients. The principal forgiveness will be provided to the loan recipients as a separate loan agreement. The principal forgiveness requirement is expected to remain a grant condition in the near future. While this provision will not directly enhance the Fund, the plan is that it will assist in meeting the Fund's goal of providing safe drinking water infrastructure to West Virginia residents.

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

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

**CONTACTING THE FUND'S MANAGEMENT**

This financial report is designed to provide a general overview of the Fund's finances and to show the Fund's accountability for the money it receives. The Fund is administered by the West Virginia Water Development Authority on behalf of the West Virginia Bureau for Public Health. If you have questions about this report or need additional information, contact the Executive Director or the Chief Financial Officer of the West Virginia Water Development Authority, 1009 Bullitt Street, Charleston, West Virginia 25301; call 304-414-6500 or visit the Authority's website ([www.wvwda.org](http://www.wvwda.org)).

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**STATEMENT OF NET POSITION**

**June 30, 2020**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents (Note 3)	\$ 42,880,203
Administrative fees receivable	64,860
Accrued interest receivable	72,013
Current maturities of loans receivable (Note 4)	<u>10,011,671</u>
Total current assets	<u>53,028,747</u>

LOANS RECEIVABLE, less current maturities  
(net of principal forgiveness of \$2,913,306) (Note 4)

132,953,950

Total assets

\$ 185,982,697

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable, related party (Note 8)	<u><u>\$ 28,833</u></u>
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**NET POSITION**

Net position, restricted

\$ 185,953,864

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

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**Year Ended June 30, 2020**

<b>OPERATING REVENUES</b>	
Administrative fees	\$ 759,186
Interest on loans	859,865
	1,619,051
<b>OPERATING EXPENSE</b>	
Administrative expense	124,184
Grant expense - principal forgiveness	1,296,183
	1,420,367
Operating income	198,684
<b>NONOPERATING REVENUES</b>	
Investment income	624,275
	822,959
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	
U.S. Environmental Protection Agency (Note 5)	4,659,952
State of West Virginia (Note 5)	2,200,800
	6,860,752
Increase in net position	7,683,711
NET POSITION, beginning	178,270,153
NET POSITION, ending	\$ 185,953,864

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

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**STATEMENT OF CASH FLOWS**

**Year Ended June 30, 2020**

**OPERATING ACTIVITIES**

Cash payments for:	
Loans originated	\$ (9,003,802)
Administrative expenses	(129,750)
Cash receipts from:	
Principal repayments	7,622,721
Administrative fees	756,064
Interest on loans	857,894
Net cash and cash equivalents provided by operating activities	<u>103,127</u>

**CAPITAL AND FINANCING ACTIVITIES**

Capital grants and contributions received:	
U.S. Environmental Protection Agency	4,659,952
State of West Virginia, Infrastructure and Jobs Development Council	2,200,800
Net cash provided by capital and related financing activities	<u>6,860,752</u>

**INVESTING ACTIVITIES**

Investment income	<u>624,275</u>
Net increase in cash and cash equivalents	7,588,154

CASH AND CASH EQUIVALENTS, beginning 35,292,049

CASH AND CASH EQUIVALENTS, ending \$ 42,880,203

Reconciliation of operating income to net cash and cash equivalents used in operating activities:

Operating income	\$ 198,684
Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities:	
Increase in loans receivable	(84,897)
Increase in administrative fees receivable	(3,122)
Increase in accrued interest receivable	(1,971)
Decrease in accounts payable, related party	(5,567)
Net cash and cash equivalents provided by operating activities	<u>\$ 103,127</u>

**SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES**

New loans originated with principal forgiveness features	<u><u>\$ 1,296,183</u></u>
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The Notes to the Financial Statements are an integral part of these statements.

# WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### Note 1. Description of the Fund

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

The Fund has received capital grants and contributions from the United States Environmental Protection Agency (the “EPA”), and the State, which is required to provide an additional twenty percent of the federal award as matching funds in order to qualify for funding. As of June 30, 2020 Congress has authorized the EPA to award \$224,370,858 in capitalization grants to the State, of which \$168,319,317 is allocated to the fund. The state is required to contribute \$40,959,957 in matching funds to the Fund, which are provided through the West Virginia Infrastructure and Jobs Development Council. The 2021 Capitalization Grant State Match of \$2,202,200 has been committed to the Bureau for Public Health and is awaiting approval of the EPA grant award.

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

### Note 2. Significant Accounting Policies

#### Basis of presentation

The Fund is accounted for as a proprietary fund special purpose government engaged in business type activities. In accordance with accounting principles generally accepted in the United States of America, these financial statements are prepared on the accrual basis of accounting, using the flow of economic resources measurement focus. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

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

#### Use of estimates

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

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# WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

#### Cash and cash equivalents

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

#### Loans receivable

The State operates the Fund as a perpetual revolving loan program, whereby loans made to local governmental agencies or other eligible water providers are funded by a federal capitalization grant, including amounts awarded under the former American Recovery and Reinvestment Act of 2009 (ARRA), and the State matching amount and/or repayments from existing loans. Loan funds are disbursed to the local governmental agencies or other eligible water providers as costs are incurred on approved projects. Interest, if applicable, is not paid during construction but begins accruing three months before the date that local governmental agencies or other eligible water providers begin repayment; and the payment schedule is adjusted for actual amounts disbursed and interest accrued on those disbursements. The loans are secured by a lien on the revenues of the local governmental agencies’ or other eligible water providers’ water systems and by debt service reserve funds held by the West Virginia Municipal Bond Commission. According to the terms as set forth in the ARRA, management believes that it is probable that certain local government agencies will fulfill specific ARRA program requirements allowing for principal forgiveness, and as such a 100% principal forgiveness valuation has been made for certain program loans through the year ended June 30, 2020.

The Fund also issues loans eligible for principal forgiveness from funds provided under EPA grants received by the Fund. These loans, which are issued to certain local government agencies or other eligible water providers will be forgiven on the 30<sup>th</sup> day of June in the fiscal year coinciding with the disbursement. These loans, which are secured by principal only bonds issued by the loan recipient, and held in the name of the Authority and the West Virginia Bureau for Public Health on behalf of the Fund, are to be deemed no longer outstanding after the last loan disbursement is forgiven. Therefore, it is the Fund’s policy to maintain an allowance for principal forgiveness loans, equal to the amount of the disbursement, until the last disbursement is made to the recipient and the loan can be removed from the outstanding loans list.

As of June 30, 2020, with the exception of forgivable loans, no provision for uncollectible accounts has been made because management believes that the loans will be repaid according to the loan terms. There are no principal or interest payments in default.

#### Administrative fees

Administrative fees are a percentage of the outstanding loan balance and are recognized as income when fees are earned over the life of the loan. Administrative fees are collected over the life of the loan concurrently with principle reduction payments by local governmental agencies or other eligible water providers at terms set forth in the applicable loan agreements.

(Continued)

# WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

#### Capital grants and contributions

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

#### Net position

Net position is reported as restricted. Restricted net position is the result of constraints placed on its use which have been imposed by the grantor agency and by law through enabling legislation.

#### Operating revenues and expenses

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

### Note 3. Cash and Cash Equivalents

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

**Credit risk** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The WV Money Market pool has been rated AAAM by Standard & Poor’s. A fund rated AAAM has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. AAAM is the highest principal stability fund rating assigned by Standard & Poor’s. The BTI itself has not been rated for credit risk by any organization.

(Continued)



**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2020**

**Note 3. Cash and Cash Equivalents (Continued)**

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all long-term corporate debt be rated A+ or higher by Standard & Poor's (or its equivalent) and short-term corporate debt be rated at A-1 or higher by Standard & Poor's (or its equivalent). The pool must have at least 15% of its assets in U.S. Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America. The following table provides information on the credit ratings of the WV Money Market Pool's investments (in thousands):

Security Type	Credit Rating		Carrying Value (in Thousands)	Percent of Pool Assets
	Moody's	S&P		
U.S. Treasury bills *	P-1	A-1+	\$ 1,017,343	19.76%
Commercial Paper	P-1	A-1+	861,472	16.73
	P-1	A-1	1,834,384	35.62
Negotiable certificates of deposit	P-1	A-1+	302,738	5.88
	P-1	A-1	469,111	9.11
Money market funds	Aaa	AAAm	1,581	0.03
	NR	AAAm	217,022	4.21
Repurchase agreements (underlying securities):				
U.S. Treasury bonds and notes*	Aaa	AA+	445,700	8.66
			<u>\$ 5,149,351</u>	<u>100.00%</u>

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

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

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

(Continued)

# WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### Note 3. Cash and Cash Equivalents (Continued)

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

The overall weighted average maturity of the investments of the West Virginia Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

Security Type	Carrying Value (In Thousands)	WAM (Days)
U.S. Treasury bills	\$ 1,017,343	37
Commercial paper	2,695,856	52
Negotiable certificates of deposit	771,849	58
Repurchase agreements	445,700	1
Money market funds	218,603	1
	\$ 5,149,351	44

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

### Note 4. Loans Receivable

As of June 30, 2020, loans receivable consisted of loans to local governmental agencies (LGA's) or other eligible water providers for qualifying projects which comply with the Act. The Fund issued \$1,296,183 in loans whose principal was forgiven during the year ended June 30, 2020 in accordance with funding covenants provided by the EPA. Accordingly a valuation account for expected principal forgiveness has been recorded as of June 30, 2020 for the total allotment of anticipated qualifying principal forgiveness loans. During the year, the Fund disbursed \$7,507,618 of loans which are required to be repaid in accordance with the loan agreements.

(Continued)

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2020**

**Note 4. Loans Receivable (Continued)**

Loans receivable consisted of the following at June 30, 2020:

Loans without principal forgiveness features	\$ 142,965,621
ARRA loans	1,956,443
EPA principal forgiveness loans	956,863
Total loans outstanding	<u>145,878,927</u>
Less:	
Allowance for expected principal forgiveness	2,913,306
Current maturities	<u>10,011,671</u>
Total loans receivable, net of current maturities and principal forgiveness	<u><u>\$ 132,953,950</u></u>

Non-principal forgiveness loans mature at various intervals through December 2050, ARRA and EPA principal forgiveness loans will be forgiven over various periods through June 2032. The scheduled principal payments on principal forgiveness loans maturing in subsequent years and annual principal forgiveness in future years are as follows at June 30:

2021	\$ 10,011,671
2022	8,561,317
2023	7,446,474
2024	7,407,194
2025	7,372,978
Thereafter	107,822,749
Less loans closed but not disbursed	2,743,456
Less current maturities	10,011,671
Less allowance for principal forgiveness programs	<u>2,913,306</u>
Total loans receivable, net of current maturities and principal forgiveness	<u><u>\$ 132,953,950</u></u>

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2020**

**Note 5. Capital Grants and Contributions**

The Fund is awarded grants from the EPA as authorized by the Act and the State provides matching funds from the West Virginia Infrastructure and Jobs Development Council's Infrastructure Fund. Funds drawn are recorded as capital grants and contributions from the EPA and the State. As of June 30, 2020, the cumulative amounts awarded to the Fund from the EPA and the contributed matching funds from the State were as follows:

Effective Award Date	EPA Grant	State Match
9/11/1998	\$ 9,076,449	\$ 2,511,760
6/11/1999	12,965,142	2,917,020
12/10/2001	5,352,330	1,551,400
11/9/2002	5,374,479	1,557,820
10/23/2003	5,556,225	1,610,500
6/16/2005	5,522,829	1,600,820
12/1/2005	5,729,139	1,660,620
12/4/2006	5,716,995	1,657,100
12/19/2007	5,678,217	1,645,860
11/7/2008	6,089,460	1,645,800
6/15/2009*	15,350,000	-
8/3/2009*	3,900,000	-
10/1/2009	5,620,740	1,629,200
7/29/2010	7,345,036	1,629,200
9/22/2010	9,466,950	2,714,600
9/15/2011	6,394,920	1,883,600
1/20/2012*	150,000	-
9/5/2012	6,224,032	1,801,257
7/1/2013	5,810,490	1,684,200
7/1/2014	6,701,750	1,769,000
7/1/2015	6,590,250	1,757,400
6/27/2016	5,949,000	1,662,400
8/1/2017	5,458,468	1,648,200
9/5/2018	7,940,580	2,221,400
9/20/2019	8,355,836	2,200,800
	\$ 168,319,317	\$ 40,959,957

\*Funds did not require a State match.

(Continued)

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2020**

**Note 5. Capital Grants and Contributions (Continued)**

The following represents the amounts of EPA grants and State matching funds received by the Fund through June 30, 2020:

Cumulative Through	Federal	State	Total Capital Grants and Contributions
June 30, 2020	\$ 162,406,131	\$ 40,959,957	\$ 203,366,088

**Note 6. Commitments**

The Fund has established a list of local governmental agencies that have formally been recommended by the West Virginia Infrastructure and Jobs Development Council and approved by the Bureau for Public Health to participate in future lending activities consistent with the guidelines of the Act. The following is a list of outstanding commitments as of June 30, 2020:

<u>Local Governmental Agency</u>	<u>Commitment Date</u>	<u>Amount Committed by the Fund</u>
Town of Elizabeth	1/14/2020	\$ 2,276,050
Town of Elizabeth	1/14/2020	500,000
Claywood Park PSD	5/06/2020	441,000
Claywood Park PSD	5/06/2020	196,000
Total		\$ 3,413,050

The Fund has awarded amounts not yet disbursed of approximately \$2,743,456 for projects previously approved and in various stages of completion.

**Note 7. Risk Management**

The Fund is exposed to various risks of loss related to torts and errors and omissions. Through its participation in the West Virginia Board of Risk and Insurance Management, the Fund obtained coverage for general liability, business interruptions, and errors and omissions. Such coverage is provided in exchange for an annual premium. There were no changes in coverage or claims in excess of coverage for the year ended June 30, 2020.

**Note 8. Transactions with State of West Virginia Agencies**

The Authority pays for and is reimbursed for certain administrative expenses (including salaries and legal expenses) on behalf of the Fund. As of June 30, 2020, the Fund had incurred and recognized \$124,184 in administrative expenses of which \$28,833 remains payable to the Authority at the end of the fiscal year.

# WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### Note 9. COVID-19 Uncertainty

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The Fund’s operations are dependent on repayments from water and sewer authorities in order to provide funds for additional water and sewer projects. This pandemic has depressed customer’s ability to pay for water and sewer service and thus revenues collected by water and sewer authorities have declined during fiscal year 2020. Additionally, access to federal and state funds may decrease or not be available depending upon appropriations. The outbreak will have a continued material adverse impact on economic and market conditions, triggering a period of local and global economic slowdown. The Fund’s financial statements have not been significantly impacted by the pandemic as of the date of the independent auditor’s report.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the Fund’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the local and global situation on its financial condition, liquidity, operations, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the responses to curb its spread, the Fund is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for future years.

**ACCOMPANYING INFORMATION**

**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**SCHEDULES OF ADMINISTRATIVE FEES ACTIVITY**

**June 30, 2020**

**SCHEDULE OF ASSETS AND FUND NET POSITION**

**ASSETS**

Cash and cash equivalents	\$ 7,487,199
Administrative fees receivable	64,860
Total assets	<u>\$ 7,552,059</u>

**LIABILITIES**

Accounts payable, related party	<u>\$ 28,833</u>
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**RESTRICTED FUND NET POSITION**

\$ 7,523,226

**SCHEDULE OF ADMINISTRATIVE FEES ACTIVITY IN FUND NET POSITION**

**REVENUES**

Administrative fees	\$ 759,186
Interest on investments	115,767
Total revenues	<u>874,953</u>

**EXPENSES**

Administrative expense	<u>124,184</u>
Net income	750,769

**RESTRICTED FUND NET POSITION - ADMINISTRATIVE FEES, beginning**

6,772,457

**RESTRICTED FUND NET POSITION - ADMINISTRATIVE FEES, ending**

\$ 7,523,226

**SCHEDULE OF CASH FLOWS**

**NET INCOME**

\$ 750,769

Adjustments to reconcile net income to net cash provided  
by administrative fees activity:

Increase in administrative fees receivable (3,122)

Decrease in accounts payable, related party (5,567)

**NET CASH PROVIDED BY ADMINISTRATIVE FEES ACTIVITY** 742,080

**CASH AND CASH EQUIVALENTS, beginning**

6,745,119

**CASH AND CASH EQUIVALENTS, ending**

\$ 7,487,199

See Independent Auditor's Report.



**WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2020**

<u>U.S. Environmental Protection Agency</u>	<u>CFDA #</u>	<u>Expenditures</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ <u>4,659,952<sup>1</sup></u>

<sup>1</sup> This amount was passed through to nonfederal entities under a loan program.

**Note 1. Basis of Presentation**

The above schedule of expenditures of federal awards includes the federal award activity of the West Virginia Drinking Water Treatment Revolving Loan Fund (the Fund) under programs of the federal government for the year ended June 30, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Fund, it is not intended to and does not present the financial position, changes in fund net position or cash flows of the Fund.

**Note 2. Summary of Significant Accounting Policies**

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

**Note 3. Indirect Cost Rate**

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Virginia Drinking Water Treatment Revolving Fund (the Fund), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated October 5, 2020.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia  
October 5, 2020



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

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

**Report on Compliance for Each Major Federal Program**

We have audited the West Virginia Drinking Water Treatment Revolving Fund 's (the Fund) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Fund's major federal program for the year ended June 30, 2020. The Fund's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Fund's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 a major federal program 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Fund's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

## Report on Internal Control over Compliance

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Fund's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

*Brown, Edwards & Company, S. L. P.*  
CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia  
October 5, 2020

WEST VIRGINIA DRINKING WATER TREATMENT REVOLVING FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2020

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Section I - Summary of Auditor's Results

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*Financial Statements*

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes  X  No

*Federal Awards*

Internal control over major programs:

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

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

