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STATE OF MISSISSIPPI  
DEPARTMENT OF HEALTH  
DRINKING WATER SYSTEMS IMPROVEMENTS REVOLVING LOAN FUND

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Audited Financial Statements  
June 30, 2012  
(With Comparative Totals for June 30, 2011)

State of Mississippi  
Department of Health  
Drinking Water Systems Improvements Revolving Loan Fund

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# Windham and Lacey, PLLC

## *Certified Public Accountants*

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### **Independent Auditor's Report**

Local Governments and Rural  
Water Systems Improvements Board  
Mississippi State Department of Health

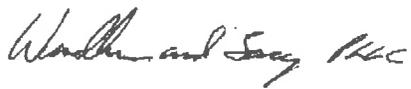
We have audited the accompanying financial statements of the Drinking Water Systems Improvements Revolving Loan Fund (the Fund) of the Local Governments and Rural Water Systems Improvements Board, as administered by the Mississippi State Department of Health, an agency of the State of Mississippi, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to above are intended to present only the financial position and results of operations of the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board, as administered by the Mississippi State Department of Health, an agency of the State of Mississippi. These statements are not intended to present the financial position and results of operations for the State of Mississippi or the Mississippi State Department of Health, of which the Fund is a part.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Fund as of June 30, 2012, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated October 17, 2012, on our consideration of the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Windham and Lacey, PLLC".

Windham and Lacey, PLLC  
October 17, 2012

DEPARTMENT OF HEALTH  
DRINKING WATER SYSTEMS IMPROVEMENTS REVOLVING LOAN FUND

FINANCIAL STATEMENTS

STATE OF MISSISSIPPI  
DEPARTMENT OF HEALTH  
DRINKING WATER SYSTEMS IMPROVEMENTS  
REVOLVING LOAN FUND  
BALANCE SHEET  
JUNE 30, 2012  
(WITH COMPARATIVE TOTALS FOR 2011)

ASSETS	<u>2012</u>	<u>2011</u>
Equity in internal investment pool	\$ 38,732,384	42,095,594
Receivables:		
Loans receivable	50,603,398	50,306,521
Due from other governments	96,884,170	88,861,097
Due from federal government	225,634	398,811
Interest receivable on investments	<u>44,546</u>	<u>33,824</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 186,490,132</u></b>	<b><u>181,695,847</u></b>
 LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Warrants payable	\$ 1,034	62,529
Accounts payable	231,996	387,800
Due to local governments	<u>1</u>	<u>1,495,020</u>
<b>TOTAL LIABILITIES</b>	<b><u>233,031</u></b>	<b><u>1,945,349</u></b>
 FUND BALANCE:		
Restricted for health and social service	<u>186,257,101</u>	<u>179,750,498</u>
<b>TOTAL FUND BALANCE</b>	<b><u>186,257,101</u></b>	<b><u>179,750,498</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 186,490,132</u></b>	<b><u>181,695,847</u></b>

See accompanying Notes to Financial Statements.

STATE OF MISSISSIPPI  
DEPARTMENT OF HEALTH  
DRINKING WATER SYSTEMS IMPROVEMENTS  
REVOLVING LOAN FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2012  
(WITH COMPARATIVE TOTALS FOR 2011)

	<u>2012</u>	<u>2011</u>
REVENUES:		
Interest on loans	\$ 3,223,833	3,404,763
Interest on investments	467,466	710,057
Loan administration fee	462,753	67,364
Federal programs	6,336,446	12,808,400
Federal programs - ARRA	<u>286,705</u>	<u>9,250,150</u>
TOTAL REVENUES	<u>10,777,203</u>	<u>26,240,734</u>
EXPENDITURES:		
Administrative expenses	1,772,748	595,893
Principal forgiveness - ARRA		3,197,144
Principal forgiveness - Other	<u>3,264,074</u>	<u>880,082</u>
TOTAL EXPENDITURES	<u>5,036,822</u>	<u>4,673,119</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>5,740,381</u>	<u>21,567,615</u>
OTHER FINANCING SOURCES (USES):		
Proceeds from bonds issued	2,700,000	1,400,000
Transfers, net	<u>(1,933,778)</u>	<u>(1,597,314)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>766,222</u>	<u>(197,314)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	6,506,603	21,370,301
FUND BALANCE:		
Beginning of Year	<u>179,750,498</u>	<u>158,380,197</u>
End of Year	<u>\$ 186,257,101</u>	<u>179,750,498</u>

See accompanying Notes to Financial Statements.

STATE OF MISSISSIPPI  
Department of Health  
Drinking Water Systems Improvements Revolving Loan Fund  
Notes to Financial Statements  
June 30, 2012

**1. ORGANIZATION OF THE FUND.**

The Mississippi State Legislature established the Drinking Water Systems Improvements Revolving Loan Fund (the Fund) pursuant to the federal Safe Drinking Water Act Amendments of 1996. The Act created the revolving loan fund program to provide low interest rate loans to counties, municipalities, districts and other tax-exempt water systems organizations for construction of new water systems, the expansion or repair of existing water systems and/or the consolidation of new or existing water systems. The State law further provides that any such federal funds shall be used and expended only in accordance with federal laws, rules and regulations governing the expenditure of such funds. The State law created the Local Governments and Rural Water Systems Improvements Board (the Board) to implement the loan program and otherwise administer provisions of the law.

Loans are awarded on a priority system, which gives maximum priority to projects needed to comply with the federal Safe Drinking Water Act (SDWA), projects that provide the greatest protection to public health and those projects which assist systems most in need on a per household basis. Interest rates charged on loans will be at or below market interest rates as determined by the Board, with up to 20 years allowed for repayment.

Federal funds are provided through federal capitalization grants pursuant to Section 1452 of the SDWA Amendments of 1996. The amount of each grant is determined by the State's U.S. Environmental Protection Agency (EPA) allocated share of the annual federal appropriation for the program. The award of each grant is conditioned on the State depositing an amount into the Fund equaling 20% of the amount of each federal capitalization grant. The State Legislature authorized the issuance of the state general obligation bonds to provide state funds for the program. \$28,843,000 of the proceeds from the sale of these bonds has been deposited into the Fund. These funds are invested by the State Treasurer until such time that the funds are needed to meet state matching requirements on loan payments. As of June 30, 2012, the EPA had awarded \$140,795,400 in capitalization grants to the State, requiring \$28,159,080 in state matching funds.

The Fund is administered by the Mississippi State Department of Health (MSDH) under the direction of the Board. MSDH's primary activities include loans for drinking water systems and management and coordination of the Fund. The Board consists of the following nine voting members: the State Health Officer; the Executive Directors of the Mississippi Development Authority; the Department of Environmental Quality; the Department of Finance and Administration; the Mississippi Association of Supervisors; the Mississippi Municipal League; and the American Consulting Engineers Council; the State Director of the United States Department of Agriculture, Rural Development; and a manager of a rural water system. The manager of a rural water system is appointed by the Governor from a list of candidates provided by the Executive Director of the Mississippi Rural Water Association. Non-appointed members of the Board may designate another representative of their agency or association to serve as an alternate. The gubernatorial appointee serves a term concurrent with the Governor and until a successor is appointed.

The Fund does not have any full-time employees. MSDH provides employees to manage the program.

STATE OF MISSISSIPPI  
Department of Health  
Drinking Water Systems Improvements Revolving Loan Fund  
Notes to Financial Statements  
June 30, 2012

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.**

***Basis of Accounting***

The Fund presents its financial statements as a general fund and uses the modified accrual basis of accounting. Revenues are recognized when both "measurable and available". Measurable means the amount can be determined. Available means amounts collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the related liability is incurred. The Fund applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, as well as applicable statements issued by the Financial Accounting Standards Board.

***Loans Receivable and Due From Other Governments***

The State operates the Fund as a direct loan program, whereby loans made to drinking water systems are 80.77% funded by the federal capitalization grant and 19.23% by the state matching amount. Loan funds are disbursed to the loan recipients upon receipt of a request from the loan recipient for the purposes of the loan. Interest is calculated from initial contract completion date. After the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed, plus interest accrued from initial contract completion date to initiation of repayment process.

***Fund Balance***

In accordance with Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the governmental fund balance is classified as follows:

Restricted: includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. The fund balance in the fund is Restricted for Health and Social Service due to federal grant requirements, bond issuance provisions, and state and federal legislation.

***Budget Information***

Under the Constitution of the State of Mississippi, money may only be drawn from the Treasury by a legal appropriation. The Fund operations are included in MSDH's annual budget.

**3. EQUITY IN INTERNAL INVESTMENT POOL.**

All monies of the Fund are deposited with the State Treasurer and are considered to be cash and cash equivalents. The Treasurer is responsible for maintaining the cash balances in accordance with state laws, and excess cash is invested in the State's cash and short-term investment pool. Details of the investments of the internal investment pool for state agencies can be obtained from the State Treasurer. As of June 30, 2012, the State's total pooled deposits and investments for state agencies were approximately \$3.3 billion, and the average remaining life of the securities invested was 3.7 years. The earnings for the total pooled investments for the year ended June 30, 2012 were approximately \$17.7 million.

STATE OF MISSISSIPPI  
 Department of Health  
 Drinking Water Systems Improvements Revolving Loan Fund  
 Notes to Financial Statements  
 June 30, 2012

Equity in internal investment pool is cash equity with the Treasurer and consists of pooled deposits and investments carried at cost, which approximates fair value. At June 30, 2012, the Fund had approximately \$38.7 million in the Treasurer's internal investment pool. The total deposits and investments of the internal investment pool are categorized according to credit risk in the State of Mississippi's Comprehensive Annual Financial Report. However, the Fund's portion of the internal investment pool cannot be individually categorized because the deposits and investments are pooled with other state agencies.

**4. LOANS RECEIVABLE AND DUE FROM OTHER GOVERNMENTS AND CREDIT RISK.**

The Fund makes loans to qualified drinking water systems for projects that meet the eligibility requirements of the SDWA. Loans are financed by capitalization grants, ARRA grants, state match and revolving funds. Interest rates on loans vary between 1.95% to 4.5% and are generally repaid over 20 years, starting normally within one year after the project is completed. Details of loans receivable as of June 30, 2012, are discussed below.

In the event of a default on a loan obligation by a public entity, MSDH has certain legal remedies that provide for ultimate collection of amounts due. Management believes that no allowance for doubtful accounts is necessary because of the applicant review process.

*Loans by Category*

Loans receivable (including amounts due from other governments) at June 30, 2012, net of loan origination fees, as discussed below, are as follows:

<u>Description</u>	<u>Loans Authorized</u>	<u>Authorized Amount Remaining</u>	<u>Loan Balance</u>
Completed projects	\$ 177,592,165		117,310,469
Projects in progress	<u>59,119,565</u>	<u>28,942,466</u>	<u>30,177,099</u>
Totals	<u>\$ 236,711,730</u>	<u>28,942,466</u>	147,487,568
Less amount due within one year on completed projects			<u>(7,416,965)</u>
Loans receivable and due from other governments, long-term			<u>\$ 140,070,603</u>

STATE OF MISSISSIPPI  
 Department of Health  
 Drinking Water Systems Improvements Revolving Loan Fund  
 Notes to Financial Statements  
 June 30, 2012

Loans mature at various intervals through June 30, 2031. The scheduled principal payments on loans maturing in subsequent years are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
Completed projects:	
2013	\$ 7,416,965
2014	7,948,246
2015	8,124,034
2016	8,324,678
2017	8,963,615
Thereafter	76,532,831
Projects in progress	<u>30,177,199</u>
	<u>\$ 147,487,568</u>

***Loan Administrative Fees***

The Fund collects administrative fees from each loan recipient at 5% of the loan amount. Prior to July 1, 2009, these administrative fees were added to the loan amount as the loan principal to be repaid by the loan recipient. Financial Accounting Standards Board Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Direct Initial Costs of Leases* (FASB 91), considers these fees to be origination fees and requires that loan origination fees be deferred and recognized over the life of the loan as an adjustment to the interest rate. FASB 91 also requires that the unamortized balance of such fees be reported as part of the loan to which it relates. Beginning July 1, 2009, the Fund collects administrative fees from the interest portion of loan repayments. Interest payments from each loan recipient are reclassified to administrative fee income until the entire administrative fee for that loan has been collected. Loan administration fee revenue of \$462,753 was collected in 2012.

Details of the unamortized loan origination fees included in loans receivable and due from other governments at June 30, 2012, follow:

<u>Description</u>	<u>Unamortized Loan Origination Fees</u>
Completed projects	\$ 4,342,345
Projects in progress	<u>921,500</u>
Total	<u>\$ 5,263,845</u>

Amortization of loan origination fees on completed projects was \$400,381 for the year ended June 30, 2012, and is included in interest on loans on the Statement of Revenues, Expenditures and Changes in Fund Balance.

STATE OF MISSISSIPPI  
Department of Health  
Drinking Water Systems Improvements Revolving Loan Fund  
Notes to Financial Statements  
June 30, 2012

**Major Loans to Drinking Water Systems**

As of June 30, 2012, the Fund had made loans to 35 drinking water systems that, in the aggregate, exceeded \$1,500,000. The outstanding balances of these loans represent approximately 80% of the total loans receivable, as follows:

Local Agency	Authorized Loan Amount	Outstanding Balance
ACL Water Association	\$ 1,718,036	1,129,742
Adams County Water Association	3,754,870	1,900,293
Bear Creek Water Association	8,989,445	6,702,875
City of Clinton	3,212,103	2,558,056
City of Gautier	2,677,171	2,172,886
City of Hernando	3,979,753	1,358,692
City of Horn Lake	2,283,457	1,299,735
City of Laurel	7,280,743	853,858
City of Long Beach	1,521,484	852,938
City of Ocean Springs	5,497,240	4,529,489
City of Olive Branch	4,734,818	3,299,975
City of Pascagoula	6,785,595	4,263,111
City of Pearl	3,809,906	3,220,548
City of Ridgeland	1,771,699	1,652,216
City of Southaven	11,270,753	8,892,938
City of Starkville	4,491,248	3,338,612
City of Tupelo	1,567,652	1,199,271
City of West Point	1,536,148	990,319
Collinsville Water Association	1,530,000	1,039,476
Columbus Utilities Commission	1,771,530	406,452
Corinth Utilities Commission	49,961,700	42,023,604
Culkin Water District	3,086,113	2,204,042
Fannin Water Association	1,566,435	1,051,632
Fisher Ferry Water District	3,105,984	2,377,866
Greenfield Water Association	2,302,160	1,645,965
Hilldale Water District	3,539,705	2,209,779
Lewisburg Water Association	1,948,907	866,851
Town of Morton	2,188,373	1,735,764
Northeast Mississippi Regional Water Supply District	2,677,553	1,483,412
Pleasant Hill Water Association	1,935,359	292,945
Southeast Rankin Water Association	2,109,701	1,139,071
Southwest Jones Water Association	1,871,292	1,752,442
Town of Caledonia	4,305,244	3,124,784
Walls Water Association	3,775,223	2,640,008
West Jackson Utility District	7,076,029	2,278,881
	<u>\$ 171,633,429</u>	<u>118,488,528</u>

STATE OF MISSISSIPPI  
 Department of Health  
 Drinking Water Systems Improvements Revolving Loan Fund  
 Notes to Financial Statements  
 June 30, 2012

**5. GRANT AWARDS.**

The Fund is funded by Capitalization Grants from the EPA authorized by Section 1452 of the SDWA Amendments of 1996 and matching funds from the State. All federal funds drawn are recorded as grant awards from the EPA. As of June 30, 2012, the EPA has awarded capitalization grants of \$140,795,400 to the State, of which \$133,472,954 has been drawn for loans and administrative expenses. The State has provided matching funds of \$28,843,000 from seven general obligation bond issues by the State. The proceeds from these bonds were deposited into the Fund for state matching. The following summarizes the capitalization grants awarded, amounts drawn on each grant and balances available for future loans:

Year	Grant Amount	Draws			Available June 30, 2012
		Through June 30, 2011	2012 Draws	Through June 30, 2012	
1997	\$ 16,474,200	16,474,200		16,474,200	0
1998	8,271,700	8,271,700		8,271,700	0
1999	8,669,500	8,669,500		8,669,500	0
2000	9,010,100	9,010,100		9,010,100	0
2001	9,047,400	9,047,400		9,047,400	0
2002	8,052,500	8,052,500		8,052,500	0
2003	8,004,100	8,004,100		8,004,100	0
2004	8,303,100	8,303,100		8,303,100	0
2005	8,285,500	8,284,898	602	8,285,500	0
2006	8,229,300	8,229,297	3	8,229,300	0
2007	8,229,000	7,957,573	271,427	8,229,000	0
2008	8,146,000	7,766,801	280,520	8,047,321	98,679
2009	8,146,000	7,310,218	465,293	7,775,511	370,489
2010	14,125,000	11,905,035	1,474,468	13,379,503	745,497
2011	9,802,000	0	3,694,219	3,694,219	6,107,781
	<u>\$ 140,795,400</u>	<u>127,286,422</u>	6,186,532	<u>133,472,954</u>	7,322,446
Receivable, June 30, 2011			(42,354)		
Receivable, June 30, 2012			<u>192,268</u>		<u>(192,268)</u>
Grant revenues, modified accrual basis			<u>\$ 6,336,446</u>		
Amount available, modified accrual basis					<u>\$ 7,130,178</u>

As of June 30, 2011 and 2012, state matching contributions were as follows:

Description	Contributions Through June 30, 2011	Fiscal Year 2012 Contributions	Contributions Through June 30, 2012
State of Mississippi	<u>\$ 26,143,000</u>	<u>\$ 2,700,000</u>	<u>\$ 28,843,000</u>

STATE OF MISSISSIPPI  
 Department of Health  
 Drinking Water Systems Improvements Revolving Loan Fund  
 Notes to Financial Statements  
 June 30, 2012

**6. ARRA GRANT AWARDS**

In 2009, the EPA awarded the Fund a \$19,500,000 American Recovery and Reinvestment Act of 2009 grant. The Fund did not begin drawing funds from the grant until fiscal year 2010. As of June 30, 2012, the Fund has drawn \$19,326,743 for loans and administrative expenses. There is no matching requirement for this grant.

The Fund has disbursed loans and administrative and small system technical assistance expenses totaling \$19,360,109 from grant funds received or accrued. Provisions of the grant require the Fund to use at least 50% of grant funds to provide additional subsidization to water systems in the form of principal forgiveness. In fiscal year ended June 30, 2010, the Fund granted principal forgiveness of \$6,693,622. In fiscal year ended June 30, 2011, the Fund granted principal forgiveness of \$3,197,144 for a total through June 30, 2012 of \$9,890,766.

The following summarizes the ARRA grant awarded, amounts drawn on each grant and balances available for future loans and expenses:

Year	ARRA Grant Amount	Draws			Available June 30, 2012
		Through June 30, 2011	2012 Draws	Through June 30, 2012	
2009	\$ 19,500,000	\$ 18,716,947	\$ 609,796	\$ 19,326,743	\$ 173,257
	\$ <u>19,500,000</u>	\$ <u>18,716,947</u>	609,796	\$ <u>19,326,743</u>	173,257
Receivable, June 30, 2011			(356,457)		
Receivable, June 30, 2012			<u>33,366</u>		<u>(33,366)</u>
ARRA grant revenues, modified accrual basis			\$ <u>286,705</u>		
Amount available, modified accrual basis					\$ <u>139,891</u>

**7. CONTINGENCIES.**

The Fund is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, and injuries to state employees while performing Fund business, or acts of God. MSDH maintains insurance for some risks of loss. Risks of loss related to torts are administered by the Mississippi Tort Claims Board. Since its inception in 1996, there have not been any claims against the Fund.

# Windham and Lacey, PLLC

*Certified Public Accountants*

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**Independent Auditor's Report on  
Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an  
Audit of the Financial Statements  
Performed in Accordance with  
Government Auditing Standards**

The Local Governments and Rural  
Water Systems Improvements Board  
Mississippi State Department of Health

We have audited the financial statements of the Drinking Water Systems Improvements Revolving Loan Fund (the Fund) of the Local Governments and Rural Water Systems Improvements Board, as administered by the Mississippi State Department of Health, an agency of the State of Mississippi, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 17, 2012. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board's financial statements as administered by the Mississippi State Department of Health are free of 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 determination of financial statement amounts. 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*.

This report is intended solely for the information and use of management, the Local Governments and Rural Water Systems Improvements Board, others within the entity, the Governor, Members of the Legislature and the United States Environmental Protection Agency and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.



Windham and Lacey, PLLC  
October 17, 2012

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*Certified Public Accountants*

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**Independent Auditor's Report on Compliance  
with the Requirements Applicable to the  
Environmental Protection Agency's  
Capitalization Grants for Drinking Water  
State Revolving Funds in Accordance with  
*Government Auditing Standards***

The Local Governments and Rural  
Water Systems Improvements Board  
Mississippi State Department of Health

We have audited the financial statements of the Drinking Water Systems Improvements Revolving Loan Fund (the Fund) of the Local Governments and Rural Water Systems Improvements Board, as administered by the Mississippi State Department of Health, an agency of the State of Mississippi, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 17, 2012.

We have also audited the Fund's compliance with requirements governing:

- Activities allowed or unallowed,
- Allowable costs/cost principles,
- Cash management,
- State matching,
- Period of availability of federal funds and binding commitments,
- Procurement, suspension and debarment,
- Program income,
- Reporting,
- Subrecipient monitoring, and
- Special tests and provisions

that are applicable to the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board for the year ended June 30, 2012. The management of the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board is responsible for the Fund's compliance with those requirements. Our responsibility is to express an opinion on those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with auditing standards generally accepted in the United States of America and *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 material noncompliance with the requirements referred to above 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 governing activities allowed or unallowed; allowable costs/cost principles; cash management; state matching; period of availability of federal funds and binding commitments; procurement, suspension and debarment; program income; reporting; subrecipient monitoring; and special tests and provisions that are applicable to the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board for the year ended June 30, 2012.

This report is intended for the information and use of management, the Local Governments and Rural Water Systems Improvements Board, others within the entity, the Governor, Members of the Legislature and the United States Environmental Protection Agency and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Windham and Lacey, PLLC".

Windham and Lacey, PLLC  
October 17, 2012