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**STATE OF MISSISSIPPI
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING LOAN FUND**

**Audited Financial Statements
June 30, 2014
(With Comparative Totals for June 30, 2013)**

State of Mississippi
Department of Environmental Quality
Clean Water State Revolving Loan Fund

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Independent Auditor's Report

Commission on Environmental Quality
Mississippi Department of Environmental Quality

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund (the Fund), as of and for the year ended June 30, 2014, and the related notes to the 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

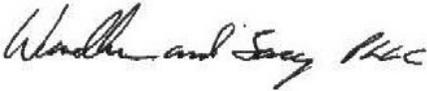
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements referred to above are intended to present only the financial position and results of operations of the Clean Water State Revolving Loan Fund of the Mississippi Department of Environmental Quality, a department 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 Department of Environmental Quality, of which the Clean Water State Revolving Loan Fund is a part.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report, dated September 24, 2014, on our consideration of the State of Mississippi Department of Environmental Quality Clean Water State Revolving Loan 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 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 internal control over financial reporting or on compliance. 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.



Windham and Lacey, PLLC
September 24, 2014

**STATE OF MISSISSIPPI
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING LOAN FUND
BALANCE SHEET
JUNE 30, 2014**

ASSETS	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Equity in internal investment pool	\$ 107,214,946	121,363,559
Receivables:		
Interest	75,813	55,549
Due from other governments	374,035,832	338,497,379
Due from federal government	<u>631,384</u>	<u>1,312,090</u>
TOTAL ASSETS	\$ <u>481,957,975</u>	<u>461,228,577</u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Warrants payable	\$ 212,417	2,784,992
Due to other governments	<u>8,235,669</u>	<u>8,066,363</u>
TOTAL LIABILITIES	<u>8,448,086</u>	<u>10,851,355</u>
 FUND BALANCE:		
Restricted for Recreation and Resources Development	<u>473,509,889</u>	<u>450,377,222</u>
TOTAL FUND BALANCE	<u>473,509,889</u>	<u>450,377,222</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>481,957,975</u>	<u>461,228,577</u>

See accompanying Notes to Financial Statements.

**STATE OF MISSISSIPPI
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING LOAN FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2014**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
REVENUES:		
Interest on loans	\$ 4,763,337	5,216,562
Interest on investments	1,088,038	1,444,454
Federal programs	21,824,327	5,291,994
Proceeds of bond issues	<u>1,000,000</u>	
TOTAL REVENUES	<u>28,675,702</u>	<u>11,953,010</u>
EXPENDITURES:		
Subsidies	<u>3,944,206</u>	<u>4,928,720</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>24,731,496</u>	<u>7,024,290</u>
OTHER FINANCING SOURCES (USES):		
Transfers in	4,399,322	785,923
Transfers out	<u>(5,998,151)</u>	<u>(2,157,203)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,598,829)</u>	<u>(1,371,280)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>23,132,667</u>	<u>5,653,010</u>
FUND BALANCE:		
Beginning of year	450,377,222	441,073,806
Prior period adjustment		<u>3,650,406</u>
Restated Fund Balance - Beginning of Year	<u>450,377,222</u>	<u>444,724,212</u>
End of Year	<u>\$ 473,509,889</u>	<u>450,377,222</u>

See accompanying Notes to Financial Statements.

STATE OF MISSISSIPPI
Department of Environmental Quality
Clean Water State Revolving Loan Fund
Notes to Financial Statements
June 30, 2014

1. ORGANIZATION AND NATURE OF OPERATIONS OF THE FUND.

The Clean Water State Revolving Loan Fund (the Fund) of the Mississippi Department of Environmental Quality (MDEQ) was established pursuant to Title VI of the Federal Water Quality Act of 1987 (the Act). The Act established the State Revolving Fund (SRF) Program to replace the construction grants program and to provide loans at reduced interest rates to finance the construction of publicly owned water pollution control facilities, non-point source pollution control projects, and estuary management projects. Instead of making grants to political subdivisions that pay for a portion of building wastewater treatment facilities, the Fund provides for low interest rate loans to finance the entire cost of qualified projects. The Fund provides a flexible financing source that can be used for a variety of pollution control projects, including non-point source pollution control projects, and developing estuary conservation and management projects. All loan repayments, including interest and principal, must remain in the Fund.

The Fund was funded by the U.S. Environmental Protection Agency (EPA) by a series of grants starting in 1989. In order to receive a grant, states are required to provide an additional 20 percent of the federal capitalization grant as matching funds. As of June 30, 2014, Congress authorized the EPA to award \$308,161,986 in capitalization grants to the State of Mississippi (the State). The State is required to contribute \$61,632,397 in matching funds. In prior years the State was awarded hardship grants totaling \$1,045,000, which required matching contributions of \$52,250. Hardship grants are maintained in the same fund with capitalization grants, with subsidiary records to account for grant balances and transactions separately. Because all hardship grants have been obligated and paid out to grant recipients, there were no hardship grant payments made for the year ended June 30, 2014.

The Fund is administered by the Commission on Environmental Quality (the Commission) acting through the Construction Branch (the Branch) of the Surface Water Division of the Office of Pollution Control of MDEQ. MDEQ's primary activities include the making of loans for water pollution control facilities and the management and coordination of the Fund. The Commission consists of seven members, all of which are appointed by the Governor.

The Fund does not have any full-time employees. The Fund is administered by employees of the Branch. All employee and related costs are recorded in MDEQ's Office of Pollution Control Operating Fund. Operating costs are reimbursed from the avails of a 5% administrative fee collected from each loan. (See Note 6).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The Fund is included in the State's basic financial statements as a General Fund of the State of Mississippi.

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.

Equity in Internal Investment Pool

Monies of the Fund deposited with the State Treasurer's Office internal investment pool are considered cash and cash equivalents. According to state law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Fund, as discussed in Note 3. Therefore, management of the Fund does not have any control over the investment of excess cash.

STATE OF MISSISSIPPI
Department of Environmental Quality
Clean Water State Revolving Loan Fund
Notes to Financial Statements
June 30, 2014

Due from Other Governments

The State operates the Fund as a direct loan program, whereby loans made to political subdivisions are funded by the federal capitalization grant, the state matching amount, loan repayments and interest earnings. Loan funds are disbursed to the political subdivision as they expend funds for the purposes of the loan and request reimbursement from the Fund. Interest is calculated from the original contract completion date, and after the final disbursement has been made, the principal amount identified in the loan agreement is adjusted for the actual amounts disbursed plus interest accrued during the period between the original construction contract completion date and the initiation of the 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 Recreation and Resources Development due to federal grant requirements, bond issuance provisions, and state and federal legislation.

Comparative Data

Comparative prior year totals have been presented in the accompanying financial statements to provide an understanding of the change in the Fund's financial condition and operations and are not intended to be a complete presentation of the prior year financial statements in accordance with accounting principles generally accepted in the United States of America.

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 MDEQ's annual budget.

Prior Period Adjustment

Financial statements ending June 30, 2013 reflect a prior period adjustment of \$3,650,406 on the Statement of Revenues, Expenditures and Changes in Fund Balance to record Series 2011A bond proceeds and interest earned in the prior year but not included in the fund.

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, 2014, the State's total pooled deposits and investments for state agencies were approximately \$3.6 billion, and the average remaining life of the securities invested was 2.71 years. The earnings for the total special funds pooled investments for the year ended June 30, 2014 were approximately \$4 million.

STATE OF MISSISSIPPI
 Department of Environmental Quality
 Clean Water State Revolving Loan Fund
 Notes to Financial Statements
 June 30, 2014

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, 2014, the Fund had approximately \$107.2 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. DUE FROM OTHER GOVERNMENTS AND CREDIT RISK.

The Fund makes loans to qualified political subdivisions for projects that meet the eligibility requirements of the Act. Loans are financed by capitalization grants, state match, loan repayments and interest earnings. Interest rates on loans vary between 1.75% and 4.5%, and are generally repaid over 20 years starting within one year after the project is completed. Details of loans receivable as of June 30, 2014, are discussed below:

In the event of a default on a loan obligation by a public entity, MDEQ has certain legal remedies available that provide for ultimate collection of amounts due.

Loans by Category

Due from other governments at June 30, 2014, is as follows:

In the event of a default on a loan obligation by a public entity, MDEQ has certain legal remedies available that provide for ultimate collection of amounts due.

Loans by Category

	<u>Loans Authorized</u>	<u>Authorized Amount Remaining</u>	<u>Cumulative Repayments</u>	<u>Balance</u>
Completed projects	\$ 582,313,645		284,582,539	297,731,106
Projects in progress	<u>150,531,914</u>	<u>74,227,188</u>		<u>76,304,726</u>
Totals	<u>\$ 732,845,559</u>	<u>74,227,188</u>	<u>284,582,539</u>	374,035,832
Less amount due within one year on completed projects				<u>(24,035,540)</u>
Due from other governments, long-term				<u>\$ 350,000,292</u>

STATE OF MISSISSIPPI
 Department of Environmental Quality
 Clean Water State Revolving Loan Fund
 Notes to Financial Statements
 June 30, 2014

Loans mature at various intervals through June 30, 2014. The scheduled principal payments on loans maturing in subsequent years are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2015	\$ 24,035,540
2016	25,010,337
2017	20,902,728
2018	21,657,518
2019	19,615,607
Thereafter	<u>262,814,102</u>
	<u>\$ 374,035,832</u>

Major Loans to Political Subdivisions

As of June 30, 2014, the Fund had made loans to 32 local agencies that, in the aggregate, exceeded \$5,000,000 for each local agency. The outstanding balances of these loans represent approximately 67% of the total loans receivable, as follows:

<u>Local Agency</u>	<u>Authorized Loan Amount</u>	<u>Loan Receivable Balance at June 30, 2014</u>
City of Greenwood	\$ 46,904,072	5,783,563
City of Biloxi	8,964,292	3,361,137
City of Jackson	51,549,102	9,139,568
Desoto County WWA	39,969,023	29,122,738
City of Gulfport	38,514,243	23,818,400
City of McComb	38,056,012	30,827,189
City of Corinth	36,031,607	9,175,986
City of Tupelo	39,260,687	21,684,024
Harrison County WW	19,886,857	5,016,683
City of Clinton	21,606,586	9,487,303
City of Laurel	17,817,468	7,596,739
West Rankin Utility Authority	15,518,730	8,361,976
City of Greenville	12,940,058	398,069
Southern Regional WW	11,323,026	10,114,104
Jackson County UA	11,202,022	8,111,756
City of Brandon	9,955,021	5,469,077
City of Vicksburg	9,825,639	3,765,475
Hancock County WW	8,849,247	7,741,759
City of Oxford	8,813,809	7,131,142
Horn Lake	7,698,546	2,358,602

(Continued)

STATE OF MISSISSIPPI
 Department of Environmental Quality
 Clean Water State Revolving Loan Fund
 Notes to Financial Statements
 June 30, 2014

Local Agency	Authorized Loan Amount	Loan Receivable Balance at June 30, 2014
City of Cleveland	7,543,552	4,738,734
West Jackson County Utility	6,432,363	3,920,511
City of Pontotoc	6,408,591	3,632,694
City of Moss Point	5,657,673	3,722,367
City of Hattiesburg	5,650,110	1,178,978
City of Gautier	5,454,626	3,739,604
Pearl River County Utility Authority	7,580,556	1,487,529
City of Southaven	12,694,381	4,174,665
City of West Point	9,996,954	8,474,278
City of Meridian	8,411,225	
City of Clarksdale	6,802,640	1,569,368
Madison County WW	5,250,790	4,038,024
Totals	\$ 542,569,508	249,142,046

The authorized loan amount includes both completed projects and projects in progress. As of June 30, 2014, cumulative principal repayments on completed projects from the above local agencies total \$153,354,646 and amounts remaining to be disbursed on projects in progress total \$49,412,226.

5. GRANT AWARDS.

The Fund is funded by grants from the EPA authorized by Title VI of the Act, matching funds from the State, loan repayments and interest earnings. All funds drawn are recorded as grant awards from the EPA. As of June 30, 2014, the EPA has awarded capitalization and hardship grants of \$309,206,986 to the State, of which \$297,015,456 has been drawn for loans and administrative expenses.

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

Year	Grant Amount	Draws Through 6/30/2013	2013 Draws	Draws Through 6/30/2014	Available 6/30/2014
1989	\$ 15,254,024	15,254,024		15,254,024	
1990	15,780,824	15,780,824		15,780,824	
1991	19,512,358	19,512,358		19,512,358	
1992	17,505,576	17,505,576		17,505,576	
1993	17,316,882	17,316,882		17,316,882	
1994	10,744,965	10,744,965		10,744,965	
1995	11,583,952	11,583,952		11,583,952	
1996	18,185,133	18,185,133		18,185,133	

(Continued)

STATE OF MISSISSIPPI
 Department of Environmental Quality
 Clean Water State Revolving Loan Fund
 Notes to Financial Statements
 June 30, 2014

Year	Grant Amount	Draws Through 6/30/2013	2013 Draws	Draws Through 6/30/2014	Available 6/30/2014
1997	5,572,572	5,572,572		5,572,572	
1998	12,316,944	12,316,944		12,316,944	
1998					
Hardship	1,045,000	1,045,000		1,045,000	
1999	12,133,044	12,133,044		12,133,044	
2000	12,091,860	12,091,860		12,091,860	
2001	11,984,346	11,984,346		11,984,346	
2002	12,011,076	12,011,076		12,011,076	
2003	11,932,965	11,932,965		11,932,965	
2004	11,940,192	11,940,192		11,940,192	
2005	9,706,600	9,706,600		9,706,600	
2006	7,869,300	7,869,300		7,869,300	
2007	9,708,880	9,708,880		9,708,880	
2008	6,092,700	6,092,700		6,092,700	
2009	6,092,700	6,092,700		6,092,700	
2010	18,357,000	15,578,336	2,778,664	18,357,000	
2011	13,304,000	2,550,194	8,523,942	11,074,136	2,229,864
2012	9,136,093		8,374,400	8,374,400	761,693
2013	12,028,000		2,828,027	2,828,027	9,199,973
Totals	\$ <u>309,206,986</u>	<u>274,510,423</u>	22,505,033	<u>297,015,456</u>	12,191,530
Receivable, June 30, 2013			(1,312,090)		
Receivable, June 30, 2014			<u>631,384</u>		<u>631,384</u>
Grant revenues, modified accrual basis			\$ <u>21,824,327</u>		
Amount available, modified accrual basis					\$ <u>11,560,146</u>

As of June 30, 2013 and 2014, state matching contributions were as follows:

	Contributions through 6/30/2013	Fiscal Year 2014 Contributions	Contributions through 6/30/2014
State of Mississippi	\$ <u>53,771,895</u>	<u>4,501,298</u>	<u>58,273,193</u>

6. ADMINISTRATIVE FEES/COSTS.

In connection with issuing loans to political subdivisions, certain administrative and processing functions are performed by the Construction Branch (the Branch) of the Surface Water Division of the Office of Pollution Control of MDEQ, as discussed in Note 1. To help fund the cost of such functions and MDEQ's indirect costs, a 5% administrative fee is collected from each loan. Until fiscal year 1999, administrative fees were added to the loan principal amount to be repaid by the loan recipient.

STATE OF MISSISSIPPI
 Department of Environmental Quality
 Clean Water State Revolving Loan Fund
 Notes to Financial Statements
 June 30, 2014

However, for all loans made after October 1, 1998, the 5% administrative fee is no longer added to the loan principal to be repaid by the loan recipient. Instead, it is collected through the loan repayment stream. Beginning with the initiation of the repayment process and until such time the total administrative fee is collected, the interest portion of each loan repayment is used to satisfy collection of the administrative fee in lieu of the interest portion. The administrative fees and costs related thereto are recognized on the financial statements of MDEQ's Office of Pollution Control SRF Administrative Fee Fund 3588.

Administrative fees collected for the fiscal year ended June 30, 2014, totaled \$1,343,388, including interest of \$87,771. During that period, \$770,138 was expended from available administrative fee funds for administrative costs of the Fund. An additional \$724,950 was expended for administrative costs and of this amount, \$604,101 was drawn in fiscal year 2014 from the federal government.

7. ARRA GRANT AWARDS.

In 2009, the EPA awarded the Fund a \$35,308,300 American Recovery and Reinvestment Act of 2009 grant. The Fund began drawing funds from the grant in fiscal year 2010. As of June 30, 2014, the Fund has drawn \$35,308,300 for loans/subsidies and administrative expenses. There is no matching requirement for this grant.

The Fund has disbursed subsidies totaling \$34,571,901 at June 30, 2014, and administrative assistance expenses totaling \$736,399 from grant funds received for a total of \$35,308,300.

The following summarizes the ARRA grant awarded, amounts drawn on the grant and the balance available for future payments on loan/subsidy payments:

<u>Year</u>	<u>Grant Amount</u>	<u>Draws Through 6/30/2013</u>	<u>2014 Draws</u>	<u>Draws Through 6/30/214</u>	<u>Available 6/30/2014</u>
ARRA	\$ 35,308,300	\$ 35,308,300	\$	\$ 35,308,300	\$ 0

8. CONTINGENCIES.

The Fund is exposed to various risks of loss related to torts, theft of assets, errors or omissions, injuries to state employees while performing Fund business, or acts of God. MDEQ maintains insurance coverage provided by the Mississippi Tort Claims Board for some risk of loss related to the Fund. Since its inception in 1989, there have not been any claims against the Fund.

STATE OF MISSISSIPPI
Department of Environmental Quality
Clean Water State Revolving Loan Fund
Notes to Financial Statements
June 30, 2014

9. HURRICANE KATRINA LOAN FORBEARANCE.

On August 29, 2005, Hurricane Katrina swept through Mississippi causing widespread destruction, including that to water and sewer operations. Some loan fund projects in progress, as well as, future projects included in the Intended Use Plan were impacted. The current portion of Due from Other Governments and loan repayments due for future years may be delayed if sales tax diversions of impacted areas are placed in abeyance for a period of time or if water and sewer collections from impacted areas are insufficient to support loan repayment schedules. The Commission has granted forbearance of loan repayment for up to six years to those water systems. In addition to a forbearance of loan repayments, the Commission will not accrue interest on those loans during the first two years of the forbearance period, consistent with State law. Federal law requires repayment of loans over a 20-year period and as of the date of this report, Congress has extended this repayment period to 21 years for Hancock County, Mississippi. At the end of the forbearance period the loans will be restructured. The ability of these entities to repay these loans within the allotted period is uncertain at this time; thus, the future economic impact is undeterminable.

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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***

Commission on Environmental Quality
Mississippi Department of Environmental Quality

We have audited, 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, the financial statements of the State of Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund, as of and for the year ended June 30, 2014, and the related notes to the financial statements and have issued our report thereon dated September 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund's internal control to determine the auditing 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 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. 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.

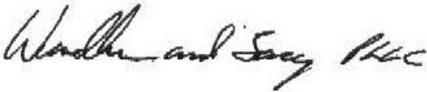
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund's financial statements 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*.

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. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Windham and Lacey, PLLC". The signature is written in a cursive, flowing style.

Windham and Lacey, PLLC
September 24, 2014

Windham and Lacey, PLLC

Certified Public Accountants

2708 Old Brandon Road
Pearl, MS 39208
(601)939-8676

Members:
American Institute of CPAs
Mississippi Society of CPAs

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

Commission on Environmental Quality
Mississippi Department of Environmental Quality

We have audited the financial statements of the State of Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund (the Fund) as of and for the year ended June 30, 2014, and have issued our report thereon dated September 24, 2014.

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

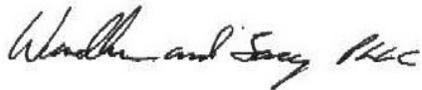
- Activities allowed or unallowed,
- Allowable costs/cost principles,
- Cash management,
- State matching,
- Period of availability of federal funds and binding commitments,
- Procurement, suspension and debarment,
- Program income,
- Reporting,
- Subrecipient monitoring, and
- Special tests and provisions

that are applicable to the Clean Water State Revolving Loan Fund Program for the year ended June 30, 2014. The management of the Clean Water State Revolving Loan Fund Program 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 Clean Water State Revolving Loan Fund Program for the year ended June 30, 2014.

This report is intended for the information and use of management of the Clean Water State Revolving Loan Fund, 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.

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

Windham and Lacey, PLLC
September 24, 2014

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

**SELECTED FUND FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2014

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

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MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

INDEPENDENT AUDITOR'S REPORT

Windham and Lacey, PLLC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Mississippi Department of Environmental Quality
Jackson, Mississippi

We have audited the accompanying financial statements of State Treasury Funds 3584, 3585, and 3586 of the Mississippi Department of Environmental Quality as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report.

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 of 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 opinions.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of State Treasury Funds 3584, 3585, and 3586 of the Mississippi Department of Environmental Quality as of June 30, 2014, and the changes in financial position thereof 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 1, the financial statements referred to above are intended to present only the financial position and results of operations of State Treasury Funds 3584, 3585, and 3586 of the Mississippi Department of Environmental Quality, a department 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 Department of Environmental Quality, of which State Treasury Funds 3584, 3585, and 3586 are a part.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2014, on our consideration of the Mississippi Department of Environmental Quality'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 for the selected funds. The purpose of that report is 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 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 Mississippi Department of Environmental Quality's internal control over financial reporting and compliance.



Windham and Lacey, PLLC
October 30, 2014

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

FINANCIAL STATEMENTS

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
 Balance Sheet
 Treasury Funds 3584, 3585, and 3586
 June 30, 2014

Exhibit A

	Fund 3584	Fund 3585	Fund 3586
ASSETS			
Cash and cash equivalents	\$ 35,444,200	1,195,705	8,548,471
Accounts receivable, net of allowances	339,709		179,861
Due from other funds			380,065
Due from federal government	29,226		1,898,376
Due from other governments			6,756
Advance to cafeteria plan			45,167
Interest receivable	25,353		
	<u>25,353</u>		
Total Assets	\$ <u>35,838,488</u>	<u>1,195,705</u>	<u>11,058,696</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued expenses	\$ 533,766		1,306,169
Due to subrecipients			159,785
Due to other funds	1,571		170,186
Due to other governments	515,098		73,843
Funds held for others			154,789
	<u>1,050,435</u>		
Total Liabilities	<u>1,050,435</u>	<u>0</u>	<u>1,864,772</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - fines, penalties, and assessments	126,945	0	123,202
	<u>126,945</u>	<u>0</u>	<u>123,202</u>
FUND BALANCES			
Restricted for recreation and resources development	34,661,108	1,195,705	9,070,722
	<u>34,661,108</u>	<u>1,195,705</u>	<u>9,070,722</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ <u>35,838,488</u>	<u>1,195,705</u>	<u>11,058,696</u>

See Independent Auditor's Report and accompanying Notes to Financial Statements.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
Statement of Revenues, Expenditures, and Changes in Fund Balances
Treasury Funds 3584, 3585, and 3586
Year Ended June 30, 2014

Exhibit B

	<u>Fund 3584</u>	<u>Fund 3585</u>	<u>Fund 3586</u>
REVENUES			
Taxes:			
Gasoline and other motor fuel	\$ 7,971,361		
Licenses, fees, and permits	5,694,681		13,245
Other fines and penalties	21,784		1,923,747
Federal sources	334,553		14,325,552
Investment income	401,399		
Charges for sales and services	9,765		547,079
Donations		7,204,296	2,896
Miscellaneous revenue	<u>130,928</u>		<u>74,618</u>
 Total Revenues	 <u>14,564,471</u>	 <u>7,204,296</u>	 <u>16,887,137</u>
EXPENDITURES			
Current:			
Salaries	4,613,670		11,588,037
Travel	57,539		257,246
Contractuals	1,570,034		15,362,134
Commodities	71,369		565,467
Capital outlay	87,872		327,785
Subsidies	10,834,641		1,613,512
Miscellaneous			<u>30,528</u>
 Total Expenditures	 <u>17,235,125</u>	 <u>0</u>	 <u>29,744,709</u>
 Excess of Revenues Over (Under) Expenditures	 <u>(2,670,654)</u>	 <u>7,204,296</u>	 <u>(12,857,572)</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	185,898		15,699,723
Transfers to other funds	(6,333,900)	(7,775,267)	(4,266,939)
Transfers of federal grant funds from other funds			3,133,352
Transfers of federal grant funds to other funds			<u>(230,859)</u>
 Total Other Financing Sources (Uses)	 <u>(6,148,002)</u>	 <u>(7,775,267)</u>	 <u>14,335,277</u>
 Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	 <u>(8,818,656)</u>	 <u>(570,971)</u>	 <u>1,477,705</u>
 FUND BALANCE - BEGINNING	 <u>43,479,764</u>	 <u>1,766,676</u>	 <u>7,593,017</u>
 FUND BALANCE - ENDING	 <u>\$ 34,661,108</u>	 <u>1,195,705</u>	 <u>9,070,722</u>

See Independent Auditor's Report and accompanying Notes to Financial Statements.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO FINANCIAL STATEMENTS

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
Selected Fund Financial Statements and
Supplementary Information
Notes to Financial Statements

Year Ended June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applicable to the selected funds of the Mississippi Department of Environmental Quality (the Agency) are described below:

Basis of Presentation – The accompanying selected fund financial statements of the Agency have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles.

Financial Reporting Entity – The Agency is reported as a state agency in the State of Mississippi's Comprehensive Annual Financial Report. The selected funds presented in these financial statements are part of the larger entity that in whole comprises the financial reporting entity of the Agency. Treasury Fund 3584 of the Agency accounts for the Office of Pollution Control's special funds that are eligible to earn interest, which includes but is not limited to the groundwater protection fee on motor fuels, air operating permit program, asbestos abatement and accreditation program, comprehensive waste minimization and the environmental protection trust to develop nonhazardous waste corrective action plans. Treasury Fund 3585 of the Agency is primarily composed of donations received which are transferred to other funds as reimbursement for expenditures. Treasury Fund 3586 of the Agency is primarily composed of federal grants for the administration of delegated programs such as the Clean Air Act, Clean Water Act, Comprehensive Environmental Response, Compensation and Liability Act, and Resource Conservation and Recovery Act. These programs form the basis of the agency's monitoring, permitting, and compliance efforts.

Measurement Focus, Basis of Accounting – Governmental Fund Financial Statements are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are generally included on the balance sheet. Under this method, revenues are recognized when measurable and available to finance operations of the current fiscal year. Available means collectible within the current year or soon enough after fiscal year end to liquidate liabilities existing as the end of the fiscal year. The Agency considers revenues received within 60 days after fiscal year end as available. Significant revenue sources that are susceptible to accrual include federal grants. Other miscellaneous revenues are recognized when received since they normally are measurable only at that time. Expenditures and related fund liabilities are recognized upon receipt of goods and services.

The selected funds for the Agency are reported as general funds. General fund balances are legally restricted to expenditures for specific purposes such as certain federal grant programs, taxes levied with statutorily defined distributions, and other resources restricted as to purpose.

Cash and Cash Equivalents – Cash and cash equivalents include bank accounts, petty cash, money market demand accounts, money market mutual funds and certificates of deposit with a maturity date within 90 days of the date acquired by the State.

Receivables – Receivables represent amounts due to the Agency for revenues earned that will be collected sometime in the future. Receivables are reported net of allowances for uncollectible accounts of \$339,709 and \$179,861 for Funds 3584 and 3586, respectively.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
Selected Fund Financial Statements and
Supplementary Information
Notes to Financial Statements

Year Ended June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Activity – In the selected fund financial statements, transactions for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures of the disbursing fund. Reimbursements of expenditures made by one fund for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Transfers represent flows of assets between funds of the Agency without equivalent flows of assets in return and without a requirement for payment.

Deferred Inflows of Resources – In addition to liabilities, the governmental funds' balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents items that are unavailable revenues that will not be recognized as an inflow of resources until future period(s) when they become available. The governmental funds report unavailable revenues from three sources: fines, penalties and assessments.

Fund Balances – The Agency implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of June 30, 2011. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraint placed on a government's fund balances more transparent. The classification used in the selected governmental fund financial statements presented in this report is as follows:

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources by law through constitutional provisions or enabling legislation.

Federal Grants – Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenue when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from these estimates.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
Selected Fund Financial Statements and
Supplementary Information
Notes to Financial Statements

Year Ended June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events – In connection with the preparation of the financial statements, management of the Agency has evaluated subsequent events through October 30, 2014, which is the date the financial statements were available to be issued. There were no events noted in this period that should be reported.

NOTE 2 – INTERFUND TRANSACTIONS

At June 30, 2014, interfund transfers consisted of the following:

Fund 3584 - Transferred To

Fund 3471	\$ 394,986
Fund 3584	80,000
Fund 3586	<u>5,858,914</u>
Total Transfers To Other Funds	<u>\$ 6,333,900</u>

Fund 3585 - Transferred To

Fund 3590	\$ 3,089
Fund 3471	75,967
Fund 3574	3,479
Fund 3586	<u>7,692,732</u>
Total Transfers To Other Funds	<u>\$ 7,775,267</u>

Fund 3586 - Transferred To

Fund 3471	\$ 3,427,253
Fund 3580	247,725
Fund 3584	105,898
Fund 3586	404,658
Fund 3590	<u>81,405</u>
Total Transfers To Other Funds	<u>\$ 4,266,939</u>

Fund 3584 - Transferred From

Fund 3586	\$ 105,898
Fund 3584	<u>80,000</u>
Total Transfers From Other Funds	<u>\$ 185,898</u>

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
Selected Fund Financial Statements and
Supplementary Information
Notes to Financial Statements

Year Ended June 30, 2014

Fund 3586 - Transferred From

Fund 3151	\$ 559,412
Fund 3725	76,088
Fund 3471	478,533
Fund 3584	5,858,914
Fund 3585	7,692,732
Fund 3586	404,658
Fund 3588	402,419
Fund 3450	113,877
Fund 3597	<u>113,090</u>
 Total Transfers From Other Funds	 \$ <u><u>15,699,723</u></u>

Interfund transfers are primarily used to move revenues from funds required to collect them to funds required to expend them.

Transfers of federal grant funds represent funds received by or sent to other funds which were not the original funds receiving the grant. In Fund 3586, transfers of federal grant funds from other funds of \$3,133,352 represent amounts received in the form of interfund transfers that have been reported as grant revenues in the respective transferring funds. In Fund 3586, transfers of federal grant funds to other funds of \$230,859, represent amounts passed-through to other funds in the form of interfund transfers that have been reported as grant expenditures in the respective transferring funds.

At June 30, 2014, due to/from other funds consisted of the following:

<u>Due From</u>	<u>Due To Fund 3586</u>
Fund 3597	\$ 113,090
Fund 341W	68,379
Fund 3728	<u>198,596</u>
 Total	 \$ <u><u>380,065</u></u>
 <u>Due To</u>	 <u>Due From Fund 3584</u>
Universities	\$ <u>1,571</u>
 Total	 \$ <u><u>1,571</u></u>

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
Selected Fund Financial Statements and
Supplementary Information
Notes to Financial Statements

Year Ended June 30, 2014

Due To	Due From Fund 3586
Universities	\$ <u>170,186</u>
Total	\$ <u><u>170,186</u></u>

Due to/from other funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made. All balances are expected to be received or paid in fiscal year 2015.

NOTE 3 – DEPOSITS

Section 27-105-5, Mississippi Code Ann. (1972), authorizes the State Treasurer to implement a statewide collateral pool program which secures all state and local public funds deposits through a centralized system of pledging securities to the State Treasurer. The program requires the State Treasurer as pledgee of all public funds to monitor the security portfolios of approved financial institutions and ensure public funds are adequately secured.

Section 27-105-5, Mississippi Code Ann. (1972), establishes the requirements for a financial institution to be approved as a qualified public funds depository. Generally, financial institutions make annual application to the State Treasurer for state funds by signing a contract and supplying the financial report as provided to its regulatory authority to assure the statutory required 5.5% primary capital to total assets ratio. When so approved by the State Treasurer, the financial institution is required to place on deposit with the State Treasurer collateral equal to at least 105% of the amount of public funds on deposit in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). Collateral may be held by a third party custodian, with approval of the State Treasurer, if conditions are met which protect the state's interests.

Custodial credit risk is the risk that in the event of the failure of a financial institution, the government will not be able to recover deposits or collateral securities that are in the possession of an outside party. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the Agency. All deposited funds of the Agency are fully collateralized in accordance with state statutes.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
Selected Fund Financial Statements and
Supplementary Information
Notes to Financial Statements

Year Ended June 30, 2014

NOTE 4 – DUE FROM FEDERAL GOVERNMENT

At June 30, 2014, due from other governments consisted of amounts due from federal governmental entities for the following funds:

Due From	Due To Fund 3584
United States Environmental Protection Agency	\$ <u>29,226</u>
Due From	Due To Fund 3586
United States Environmental Protection Agency	\$ 1,744,027
United States Department of Homeland Security	64,030
United States Department of Defense	89,445
United States Department of Interior	442
United States Department of Energy	<u>432</u>
Total	\$ <u>1,898,376</u>

The entire amounts are expected to be collected in fiscal year 2015.

NOTE 5 – DUE FROM AND TO OTHER GOVERNMENTS

Due from other governmental entities from Fund 3586 of \$6,736 consisted of a receivable from the National Aeronautics and Space Administration (NASA). NASA is not a governmental entity that is reported in the state's CAFR. The entire amount is expected to be collected in fiscal year 2015.

Due to other governments from Funds 3584 and 3586 of \$515,098 and \$73,843, respectively, represent small invoices payable to other governmental entities. Such other governmental entities are not reported in the state's CAFR. The entire amounts are expected to be paid in fiscal year 2015.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
Selected Fund Financial Statements and
Supplementary Information
Notes to Financial Statements

Year Ended June 30, 2014

NOTE 6 – ACCOUNTS RECEIVABLE

Receivables as of year-end for the Funds, including the applicable allowances for uncollectible accounts, are as follows:

	Fund 3584	Fund 3586
Accounts Receivable, Current	\$ 370,542	231,914
Accounts Receivable, Noncurrent	392,863	4,146,402
Gross Receivables	763,405	4,378,316
Allowance for Uncollectibles, Current	(30,833)	(52,053)
Allowance for Uncollectibles, Noncurrent	(392,863)	(4,146,402)
Net Total Accounts Receivable	\$ 339,709	179,861

NOTE 7 – RETIREMENT PLAN

The Agency contributes to the Public Employees’ Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees’ Retirement System, PERS Building, 429 Mississippi Street, Jackson, Mississippi 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy – PERS members are required to contribute 9.00% of their annual covered salary and the Agency is required to contribute at an actuarially determined rate. The current rate is 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. PERS contributions for the fiscal year ended June 30, 2014 for the selected funds were as follows: Fund 3584 - \$556,596 and Fund 3586 - \$1,251,064.

NOTE 8 – CONTINGENCIES

Federal Grants – The Agency has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditures of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the Agency. The Agency estimates that the ultimate disallowance pertaining to these grants, if any, will be immaterial to its overall financial condition. As of the report date, all costs have been funded through grant proceeds or legislation.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
Selected Fund Financial Statements and
Supplementary Information
Notes to Financial Statements

Year Ended June 30, 2014

Litigation – The Agency is party to various legal proceedings that arise in the normal course of governmental operations. The State’s legal counsel believes that they will be successful in defending the Agency in a majority of these cases. In the event they are not successful in defending such cases, the state’s opinion is that the ultimate disposition of these matters will not have a material adverse effect on the financial position of the state.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

SPECIAL REPORT

Windham and Lacey, PLLC

Certified Public Accountants

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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*

Mississippi Department of Environmental Quality
Jackson, Mississippi

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 State Treasury Funds 3584, 3585, and 3586 of the Mississippi Department of Environmental Quality (the Agency) as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 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. 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.

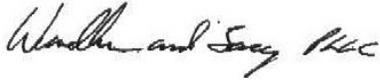
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Agency's financial statements for State Treasury Funds 3584, 3585, and 3586 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 the 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*.

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.



Windham and Lacey, PLLC
October 30, 2014

**STATE OF MISSISSIPPI
DEPARTMENT OF ENVIRONMENTAL QUALITY
HUD/MDA SUB-GRANT FUND 3589**

**Audited Financial Statements
June 30, 2014**

**STATE OF MISSISSIPPI
DEPARTMENT OF ENVIRONMENTAL QUALITY
HUD/MDA SUB-GRANT FUND 3589**

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INDEPENDENT AUDITOR'S REPORT

Mississippi Department of Environmental Quality
Jackson, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Mississippi Department of Environmental Quality HUD/MDA Sub-Grant Fund 3589 (the Fund) as of and for the year ended June 30, 2014, and the related notes to the 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

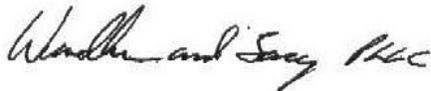
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements referred to above are intended to present only the financial position and results of operations of the HUD/MDA Sub-Grant Fund 3589 of the Mississippi Department of Environmental Quality, a department 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 Department of Environmental Quality, of which the HUD/MDA Sub-Grant Fund 3589 is a part.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report, dated November 21, 2014, on our consideration of the State of Mississippi Department of Environmental Quality HUD/MDA Sub-Grant Fund 3589's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. 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.



Windham and Lacey, PLLC
November 21, 2014

**STATE OF MISSISSIPPI
DEPARTMENT OF ENVIRONMENTAL QUALITY
HUD/MDA SUB-GRANT FUND
BALANCE SHEET
JUNE 30, 2014**

ASSETS	<u>June 30, 2014</u>
Receivables:	
Due from other funds	\$ <u>2,490,890</u>
TOTAL ASSETS	\$ <u><u>2,490,890</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Due to other governments	\$ <u>2,490,890</u>
TOTAL LIABILITIES	<u>2,490,890</u>
FUND BALANCE:	
Restricted for Recreation and Resources Development	<u>0</u>
TOTAL FUND BALANCE	<u>0</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u><u>2,490,890</u></u>

See accompanying Notes to Financial Statements.

**STATE OF MISSISSIPPI
DEPARTMENT OF ENVIRONMENTAL QUALITY
HUD/MDA SUB-GRANT FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2014**

	<u>June 30, 2014</u>
REVENUES	
Federal Sub-Grants Received from Funds	\$ <u>15,826,404</u>
TOTAL REVENUES	<u>15,826,404</u>
EXPENDITURES	
Subsidies	<u>16,678,610</u>
TOTAL EXPENDITURES	<u>16,678,610</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(852,206)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(852,206)
FUND BALANCE:	
Beginning of year	<u>852,206</u>
End of year	\$ <u><u>0</u></u>

See accompanying Notes to Financial Statements.

**STATE OF MISSISSIPPI
DEPARTMENT OF ENVIRONMENTAL QUALITY**

**HUD/MDA Sub-Grant Fund 3589
Notes to Financial Statements
June 30, 2014**

1. ORGANIZATION AND NATURE OF OPERATIONS OF THE FUND.

The HUD/MDA Sub-Grant Fund 3589 (the Fund) of the Mississippi Department of Environmental Quality (MDEQ) was established to administer the funds for the Mississippi Gulf Region Water and Wastewater Plan (the Plan). The Plan was established by the Governor in response to Hurricane Katrina. The funding is provided by the Department of Housing and Urban Development (HUD) through Disaster Recovery Community Development Block Grants (CDBG) received from the Mississippi Development Authority (MDA).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The Fund is included in the State's basic financial statements as a General Fund of the State of Mississippi.

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.

Due from Other Funds/Due to Other Governments

The State operates the Fund as a reimbursement program, whereby payments made to political subdivisions are funded by the federal Community Development Block Grant (CDBG) program from the U.S. Housing and Urban Development (HUD) passed-through the Mississippi Development Authority (MDA). Funds are disbursed to the political subdivision as they expend funds for the purposes of the Plan and request reimbursement from the Fund. Disbursements are made to political subdivisions after funds are received from MDA.

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 recreation and resources development due to federal grant requirements 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 MDEQ's annual budget.

**STATE OF MISSISSIPPI
DEPARTMENT OF ENVIRONMENTAL QUALITY**

**HUD/MDA Sub-Grant Fund 3589
Notes to Financial Statements
June 30, 2014**

3. GRANT AWARDS.

The Fund is funded by the U.S. Housing and Urban Development (HUD) Community Development Block Grant (CDBG) passed-through the Mississippi Development Authority (MDA). All funds drawn are recorded as grant awards transferred in from the MDA.

4. CONTINGENCIES.

The Fund is exposed to various risks of loss related to torts, theft of assets, errors or omissions, injuries to state employees while performing Fund business, or acts of God. MDEQ maintains insurance coverage provided by the Mississippi Tort Claims Board for some risk of loss related to the Fund. There have not been any claims against the Fund.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although MDEQ expects such amounts, if any, to be immaterial.

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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**

Mississippi Department of Environmental Quality
Jackson, Mississippi

We have audited, 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, the financial statements of the financial statements of the State of Mississippi Department of Environmental Quality HUD/MDA Sub-Grant Fund 3589, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mississippi Department of Environmental Quality HUD/MDA Sub-Grant Fund 3589's internal control to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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 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. 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 Mississippi Department of Environmental Quality HUD/MDA Sub-Grant Fund 3589's financial statements 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 the 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*.

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 result 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. However, this report is a matter of public record and its distribution is not limited.



Windham and Lacey, PLLC
November 21, 2014

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

**Audit of Schedule of Federal Grant Activity Transferred in From
Another State Agency**

For the Year Ended June 30, 2014

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

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INDEPENDENT AUDITOR'S REPORT

Mississippi Department of Environmental Quality
Jackson, Mississippi

Report on the Financial Statements

We have audited the accompanying Schedule of Federal Grant Activity Transferred in From Another State Agency for the selected major program of the Mississippi Department of Environmental Quality, and the related note to the schedule, for the year ended June 30, 2014.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the Schedule of Federal Grant Activity Transferred in From Another State Agency for the selected major program 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

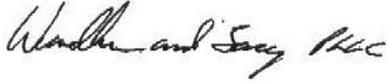
Our responsibility is to express an opinion on the Schedule of Federal Grant Activity Transferred in From Another State Agency for the selected major program based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Federal Grant Activity Transferred in From Another State Agency for the selected major program is 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 Schedule of Federal Grant Activity Transferred in From Another State Agency referred to above presents fairly, in all material respects, the federal grant activity transferred in from another state agency as of June 30, 2014, for the selected major program in conformity with accounting principles generally accepted in the United States of America.



Windham and Lacey, PLLC
November 21, 2014

Mississippi Department of Environmental Quality
 Federal Grant Activity Transferred In From Another State Agency
 For the Year Ended June 30, 2014

CFDA Number	Grant Name	Grant Number	Grant Period	Paying Fund	Receiving Fund	Grant Award	Beginning Due From (To) Granting Agency	Receipts		Expenditures		Ending Due From (To) Granting Agency
								Cumulative As of Period End	Current Fiscal Year	Cumulative Federal As of Period End	Current Fiscal Year Federal	
	DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT/ MISSISSIPPI DEVELOPMENT AUTHORITY/COMMUNITY DEVELOPMENT BLOCK GRANT:											
14.228	GULF COAST WATER/STORM WATER	R102-0011	4/1/06-6/30/15	341W	3471	\$ 35,361,628		75,300		75,300		
	GULF COAST WATER/STORM WATER	R102-0011	4/1/06-6/30/15	341W	3586	\$	5,040	7,611,315	37,953	7,617,747	39,345	6,432
	GULF COAST WATER/STORM WATER	R102-0011	4/1/06-6/30/15	341/W	3589	\$	0	27,518,077	827,625	27,600,522	910,070	82,445
14.228	GULF COAST WATER/STORM WATER	R102-0012	1/1/07-12/31/15	341W	3471	\$537,357,307	6,125	351,929	43,532	356,021	41,499	4,092
	GULF COAST WATER/STORM WATER	R102-0012	1/1/07-12/31/15	341W	3586	\$	242,556	41,589,833	2,837,210	41,651,780	2,656,601	61,947
	GULF COAST WATER/STORM WATER	R102-0012	1/1/07-12/31/15	341W	3589	\$	2,647,936	461,515,252	14,718,666	463,906,884	14,462,362	2,391,632
	GULF COAST WATER/STORM WATER	R102-0012	1/1/07-12/31/15	341W	3590	\$		154,283		154,283		
14.228	GULF COAST WATER/STORM WATER	R151-0013	6/22/07-12/31/14	341W	3589	\$ 55,000,000	128,991	53,503,955	566,150	53,520,768	453,972	16,813
14.228	GULF COAST WATER/STORM WATER	R118-0014	7/2/08-3/30/13	341W	3589	\$ 25,000,000	0	25,000,000	0	25,000,000	0	
	TOTALS					\$652,718,935	3,030,648	617,319,944	19,031,136	619,883,305	18,563,849	2,563,361

See the independent auditor's report and accompanying note to financial statement.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

**Note to Schedule of Federal Grant Activity Transferred in From Another State Agency
For the Year Ended June 30, 2014**

NOTE 1 – BASIS OF PRESENTATION

The Schedule of Federal Grant Activity Transferred in From Another State Agency includes the federal grant activity for the selected major program of the Mississippi Department of Environmental Quality and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

SUPPLEMENTARY INFORMATION

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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 STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mississippi Department of Environmental Quality
Jackson, Mississippi

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 Schedule of Federal Grant Activity Transferred in From Another State Agency for the selected major program of the Mississippi Department of Environmental Quality, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mississippi Department of Environmental Quality's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule of Federal Grant Activity Transferred in From Another State Agency, but not for the purpose of expressing an opinion on the effectiveness of Mississippi Department of Environmental Quality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mississippi Department of Environmental Quality'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 entity'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.

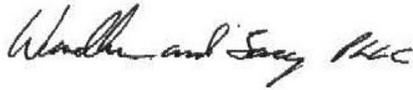
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Schedule of Federal Grant Activity Transferred in From Another State Agency is 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 the 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*.

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 result 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. However, this report is a matter of public record and its distribution is not limited.



Windham and Lacey, PLLC
November 21, 2014

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Mississippi Department of Environmental Quality
Jackson, Mississippi

Report on Compliance for the Major Federal Program

We have audited the compliance of the selected major federal program of the Mississippi Department of Environmental Quality with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the selected major federal program for the year ended June 30, 2014. Mississippi Department of Environmental Quality's selected 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 the requirements of laws, regulations, contracts and grants applicable to its major federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Mississippi Department of Environmental Quality's selected 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 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about the selected major federal program of the Mississippi Department of Environmental Quality'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 the selected major federal program. Our audit does not provide a legal determination on the selected major federal program of the Mississippi Department of Environmental Quality's compliance with those requirements.

Opinion on the Major Federal Program

In our opinion, the selected major federal program of the Mississippi Department of Environmental Quality, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the selected major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The management of the Mississippi Department of Environmental Quality, is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit, we considered Mississippi Department of Environmental Quality's internal control over compliance for the selected major federal program with the types of requirements that could have a direct and material effect on the selected major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the selected major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 entity'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 the 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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

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 OMB Circular A-133. Accordingly this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.



Windham and Lacey, PLLC
November 21, 2014

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Section I - Summary of Auditor's Results

Federal Awards

Schedule of Federal Grant Activity Transferred in From Another State Agency

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified not considered to be a material weakness?	No
Noncompliance material to the financial statements noted?	No
Internal control over federal program:	
Material weakness identified?	No
Significant deficiency identified not considered to be a material weakness?	No
Type of auditor's report issued on compliance for the federal program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	No
Federal program identified as a major program:	
U.S. Department of Health and Urban Development/ Community Development Block Grant, CFDA #14.228	
Auditee qualified as a low-risk auditee?	No

Section II - Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Section III - Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to federal awards.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

Schedule of Changes in Accrued Compensated Absences
For the Year Ended June 30, 2014

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
Schedule of Changes in Accrued Compensated Absences

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Windham and Lacey, PLLC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Mississippi Department of Environmental Quality
Jackson, Mississippi

Report on the Financial Statements

We have audited the accompanying Schedule of Changes in Accrued Compensated Absences of the Mississippi Department of Environmental Quality for the year ended June 30, 2014, and the related note to the schedule.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the Schedule of Changes in Accrued Compensated Absences 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 the Schedule of Changes in Accrued Compensated Absences that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule of Changes in Accrued Compensated Absences 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 Schedule of Changes in Accrued Compensated Absences is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule of Changes in Accrued Compensated Absences. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule of Changes in Accrued Compensated Absences, 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 Schedule of Changes in Accrued Compensated Absences 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 Schedule of Changes in Accrued Compensated Absences.

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 Schedule of Changes in Accrued Compensated Absences referred to above presents fairly, in all material respects, the changes in accrued compensated absences of the Mississippi Department of Environmental Quality as of June 30, 2014, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The Schedule of Changes in Accrued Compensated Absences referred to above is intended to present only the changes in accrued compensated absences of the Mississippi Department of Environmental Quality, an agency of the State of Mississippi. This schedule is not intended to present the financial position and results of operations for the State of Mississippi or the Mississippi Department of Environmental Quality.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report, dated October 30, 2014, on our consideration of the Mississippi Department of Environmental Quality's internal control over the reporting of accrued compensated absences and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the reporting of accrued compensated absences and compliance and the results of that testing, and not to provide an opinion on internal control over the reporting of accrued compensated absences or on compliance. 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.



Windham and Lacey, PLLC
October 30, 2014

**Mississippi Department of Environmental Quality
Schedule of Changes in Accrued Compensated Absences
For the Year Ended June 30, 2014**

Accrued Compensated Absences:

Beginning Balance	\$	2,178,799
Additions		1,218,956
Deletions		<u>(1,274,110)</u>
Ending Balance	\$	<u>2,123,645</u>

See Independent Auditor's Report and accompanying Note to Schedule of Changes in Accrued Compensated Absences.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

Note to Schedule of Changes in Accrued Compensated Absences
For the Year Ended June 30, 2014

NOTE 1 – BASIS OF PRESENTATION

The Schedule of Changes in Accrued Compensated Absences of the Mississippi Department of Environmental Quality is presented on the accrual basis of accounting.

SUPPLEMENTARY INFORMATION

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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 STATEMENT
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mississippi Department of Environmental Quality
Jackson, Mississippi

We have audited, 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, the Schedule of Changes in Accrued Compensated Absences for the Mississippi Department of Environmental Quality for the year ended June 30, 2014, and the related notes to the financial statement, and have issued our report thereon dated October 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mississippi Department of Environmental Quality's internal control over the reporting of accrued compensated absences to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule of Changes in Accrued Compensated Absences, but not for the purpose of expressing an opinion on the effectiveness of the Mississippi Department of Environmental Quality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mississippi Department of Environmental Quality'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 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. 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 Schedule of Changes in Accrued Compensated Absences for the Mississippi Department of Environmental Quality is free of material misstatement, we performed tests of the Mississippi Department of Environmental Quality's 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*.

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. However, this report is a matter of public record and its distribution is not limited.



Windham and Lacey, PLLC
October 30, 2014