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

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

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

Table of Contents

| | <u>Page</u> |
|--|-------------|
| Independent Auditor's Report..... | 1 |
| Financial Statements..... | 3 |
| Balance Sheet..... | 4 |
| Statement of Revenues, Expenditures and Changes in Fund Balance..... | 5 |
| Notes to the Financial Statements..... | 6 |
| 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 <i>Government Auditing Standards</i> | 12 |
| Independent Auditor's Report on Compliance with the Requirements Applicable to the Environmental Protection Agency's Capitalization Grants for Drinking Water State Revolving Funds in Accordance with <i>Government Auditing Standards</i> | 14 |

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Drinking Water Systems Improvements Revolving Loan Fund (the Fund) of the Local Governments and Rural Water Systems Improvements Board, as administered by the Mississippi State Department of Health, an agency of the State of Mississippi, as of and for the year ended June 30, 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

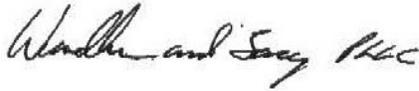
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United 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 Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board, as administered by the Mississippi State Department of Health, an agency of the State of Mississippi. These statements are not intended to present the financial position and results of operations for the State of Mississippi or the Mississippi State Department of Health, of which the Fund is a part.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report, dated October 27, 2014, on our consideration of the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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
October 27, 2014

DEPARTMENT OF HEALTH
DRINKING WATER SYSTEMS IMPROVEMENTS REVOLVING LOAN FUND

FINANCIAL STATEMENTS

STATE OF MISSISSIPPI
DEPARTMENT OF HEALTH
DRINKING WATER SYSTEMS IMPROVEMENTS
REVOLVING LOAN FUND
BALANCE SHEET
JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

| ASSETS | <u>2014</u> | <u>2013</u> |
|--|---------------------------|------------------------|
| Equity in internal investment pool | \$ 57,997,415 | 54,706,433 |
| Receivables: | | |
| Loans receivable | 55,994,175 | 51,832,207 |
| Due from other governments | 93,410,699 | 89,551,125 |
| Due from federal government | 33,684 | 81,156 |
| Interest receivable on investments | <u>41,039</u> | <u>26,108</u> |
| TOTAL ASSETS | <u>\$ 207,477,012</u> | <u>196,197,029</u> |
| LIABILITIES AND FUND BALANCE | | |
| LIABILITIES: | | |
| Warrants payable | \$ 97,216 | |
| Accounts payable | 35,981 | 52,426 |
| Due to other funds | | <u>29,943</u> |
| TOTAL LIABILITIES | <u>133,197</u> | <u>82,369</u> |
| FUND BALANCE: | | |
| Restricted for health and social service | <u>207,343,815</u> | <u>196,114,660</u> |
| TOTAL FUND BALANCE | <u>207,343,815</u> | <u>196,114,660</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 207,477,012</u> | <u>196,197,029</u> |

See accompanying Notes to Financial Statements.

STATE OF MISSISSIPPI
DEPARTMENT OF HEALTH
DRINKING WATER SYSTEMS IMPROVEMENTS
REVOLVING LOAN FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

| | <u>2014</u> | <u>2013</u> |
|---|-----------------------|------------------------|
| REVENUES: | | |
| Interest on loans | \$ 2,932,728 | 4,274,961 |
| Interest on investments | 502,887 | 492,568 |
| Loan administration fee | 700,600 | 629,520 |
| Federal programs | 8,171,885 | 9,136,996 |
| Federal programs - ARRA | | <u>139,892</u> |
| TOTAL REVENUES | <u>12,308,100</u> | <u>14,673,937</u> |
| EXPENDITURES: | | |
| Administrative expenses | 689,382 | 888,529 |
| Principal forgiveness - Other | | <u>1,539,999</u> |
| TOTAL EXPENDITURES | <u>689,382</u> | <u>2,428,528</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>11,618,718</u> | <u>12,245,409</u> |
| OTHER FINANCING SOURCES (USES): | | |
| Proceeds from bonds issued | 1,000,000 | |
| Transfers, net | <u>(1,389,563)</u> | <u>(2,387,850)</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(389,563)</u> | <u>(2,387,850)</u> |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | 11,229,155 | 9,857,559 |
| FUND BALANCE: | | |
| Beginning of Year | <u>196,114,660</u> | <u>186,257,101</u> |
| End of Year | <u>\$ 207,343,815</u> | <u>196,114,660</u> |

See accompanying Notes to Financial Statements.

STATE OF MISSISSIPPI
Department of Health
Drinking Water Systems Improvements Revolving Loan Fund
Notes to Financial Statements
June 30, 2014

1. ORGANIZATION OF THE FUND.

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

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

Federal funds are provided through federal capitalization grants pursuant to Section 1452 of the SDWA Amendments of 1996. The amount of each grant is determined by the State's U.S. Environmental Protection Agency (EPA) allocated share of the annual federal appropriation for the program. The award of each grant is conditioned on the State depositing an amount into the Fund equaling 20% of the amount of each federal capitalization grant. The State Legislature authorized the issuance of the state general obligation bonds to provide state funds for the program. \$29,843,000 of the proceeds from the sale of these bonds has been deposited into the Fund. These funds are invested by the State Treasurer until such time that the funds are needed to meet state matching requirements on loan payments. In 2014, the Board authorized the use of \$620,000 from the Emergency Revolving Loan Fund as additional match funds. As of June 30, 2014, the EPA had awarded \$158,909,566 in capitalization grants to the State, requiring \$31,781,913 in state matching funds.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

Basis of Accounting

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

STATE OF MISSISSIPPI
Department of Health
Drinking Water Systems Improvements Revolving Loan Fund
Notes to Financial Statements
June 30, 2014

Loans Receivable and Due From Other Governments

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

Fund Balance

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

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

Budget Information

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

3. EQUITY IN INTERNAL INVESTMENT POOL.

All monies of the Fund are deposited with the State Treasurer and are considered to be cash and cash equivalents. The Treasurer is responsible for maintaining the cash balances in accordance with state laws, and excess cash is invested in the State's cash and short-term investment pool. Details of the investments of the internal investment pool for state agencies can be obtained from the State Treasurer. As of June 30, 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 2.9 years. The earnings for the total pooled investments for the year ended June 30, 2014 were approximately \$4.0 million.

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 \$54.7 million in the Treasurer's internal investment pool. The total deposits and investments of the internal investment pool are categorized according to credit risk in the State of Mississippi's Comprehensive Annual Financial Report. However, the Fund's portion of the internal investment pool cannot be individually categorized because the deposits and investments are pooled with other state agencies.

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

The Fund makes loans to qualified drinking water systems for projects that meet the eligibility requirements of the SDWA. Loans are financed by capitalization grants, ARRA grants, state match and revolving funds. Interest rates on loans vary between 1.95% to 4.5% and are generally repaid over 20 years, starting as specified in the loan agreement; the beginning date is normally at the end of the project construction which is usually a one year time period. Details of loans receivable as of June 30, 2014, are discussed below.

STATE OF MISSISSIPPI
 Department of Health
 Drinking Water Systems Improvements Revolving Loan Fund
 Notes to Financial Statements
 June 30, 2014

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

Loans by Category

Loans receivable (including amounts due from other governments) at June 30, 2014, net of loan origination fees, as discussed below, are as follows:

| <u>Description</u> | <u>Loans Authorized</u> | <u>Authorized Amount Remaining</u> | <u>Loan Balance</u> |
|--|-----------------------------|--|-------------------------|
| Completed projects | \$ 196,429,275 | | 133,961,820 |
| Projects in progress | <u>40,786,725</u> | <u>25,343,671</u> | <u>15,443,054</u> |
| Totals | <u>\$ 237,216,000</u> | <u>25,343,671</u> | 149,404,874 |
| Less amount due within one year on completed projects | | | <u>(8,535,479)</u> |
| Loans receivable and due from other governments, long-term | | | <u>\$ 140,869,395</u> |

Loans mature at various intervals through June 30, 2034. The scheduled principal payments on loans maturing in subsequent years are as follows:

| <u>Years Ending June 30</u> | <u>Amount</u> |
|-----------------------------|-----------------------|
| Completed projects: | |
| 2015 | \$ 8,535,479 |
| 2016 | 8,962,444 |
| 2017 | 9,136,419 |
| 2018 | 9,346,534 |
| 2019 | 9,291,893 |
| Thereafter | 88,689,051 |
| Projects in progress | <u>15,443,054</u> |
| Total | <u>\$ 149,404,874</u> |

Loan Administrative Fees

The Fund collects administrative fees from each loan recipient at 5% of the initial loan amount. Prior to July 1, 2009, these administrative fees were added to the loan amount as the loan principal to be repaid by the loan recipient. Financial Accounting Standards Board Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Direct Initial Costs of Leases* (FASB 91), considers these fees to be origination fees and requires that loan origination fees be deferred and recognized over the life of the loan as an adjustment to the interest rate. FASB 91 also requires that the unamortized balance of such fees be reported as part of the loan to which it relates. Beginning July 1, 2009, the Fund collects administrative fees from the interest portion of loan repayments. Interest payments from each loan recipient are reclassified to administrative fee income until the entire administrative fee for that loan has been collected. Loan administration fee revenue of \$700,600 was collected in 2014.

STATE OF MISSISSIPPI
 Department of Health
 Drinking Water Systems Improvements Revolving Loan Fund
 Notes to Financial Statements
 June 30, 2014

Details of the unamortized loan origination fees included in loans receivable and due from other governments at June 30, 2014, follow:

| <u>Description</u> | <u>Unamortized Loan Origination Fees</u> |
|--------------------|--|
| Completed projects | \$ 4,172,074 |

Amortization of loan origination fees on completed projects was \$305,657 for the year ended June 30, 2014, and is included in interest on loans on the Statement of Revenues, Expenditures and Changes in Fund Balance.

Major Loans to Drinking Water Systems

As of June 30, 2014, the Fund had made loans to 35 drinking water systems that, in the aggregate, exceeded \$1,500,000. The outstanding balances of these loans represent approximately 77.38% of the total loans receivable, as follows:

| <u>Local Agency</u> | <u>Authorized Loan Amount</u> | <u>Outstanding Balance</u> |
|--|-----------------------------------|--------------------------------|
| ACL Water Association | \$ 1,601,571 | 972,131 |
| Adams County Water Association | 2,844,725 | 1,624,279 |
| Bear Creek Water Association | 8,989,445 | 5,862,617 |
| City of Clinton | 4,925,144 | 2,337,190 |
| City of Columbia | 2,122,895 | 1,874,626 |
| City of Gautier | 2,677,171 | 1,928,860 |
| City of Hernando | 2,177,042 | 864,066 |
| City of Horn Lake | 3,825,927 | 1,109,911 |
| City of Long Beach | 1,521,484 | 688,850 |
| City of Laurel | 5,005,986 | 3,712,838 |
| City of Ocean Springs | 5,497,240 | 4,028,328 |
| City of Pearl | 3,809,906 | 2,871,149 |
| City of Ridgeland | 1,771,698 | 1,495,924 |
| City of Southaven | 11,270,753 | 7,840,130 |
| City of Tupelo | 5,016,034 | 1,164,175 |
| City of West Point | 1,536,148 | 836,403 |
| Collinsville Water Association | 1,530,000 | 892,546 |
| Corinth Utilities Commission | 47,034,278 | 42,614,521 |
| Culkin Water District | 2,912,864 | 1,895,912 |
| Fannin Water Association | 1,566,435 | 891,342 |
| Fisher Ferry Water District | 3,105,984 | 2,109,309 |
| Good Hope Water Association | 1,865,517 | 1,625,709 |
| Greenfield Water Association | 2,150,808 | 1,434,099 |
| Hilldale Water District | 5,670,580 | 2,681,613 |
| Lewisburg Water Association | 1,948,907 | 1,145,022 |
| Town of Morton | 2,188,373 | 1,533,207 |
| Northeast Mississippi Regional Water Supply District | 2,677,553 | 1,204,310 |
| Pleasant Hill Water Association | 1,935,359 | 94,322 |
| Progress Community Water Association | 1,748,791 | 1,108,361 |

STATE OF MISSISSIPPI
Department of Health
Drinking Water Systems Improvements Revolving Loan Fund
Notes to Financial Statements
June 30, 2014

Major Loans to Drinking Water Systems (Continued)

| Local Agency | Authorized Loan Amount | Outstanding Balance |
|------------------------------------|---------------------------|------------------------|
| Southeast Rankin Water Association | 1,921,226 | 940,276 |
| Southwest Jones Water Association | 1,871,292 | 1,588,473 |
| Town of Baldwin | 1,938,518 | 1,527,453 |
| Town of Caledonia | 3,285,745 | 2,840,193 |
| Walls Water Association | 3,775,222 | 2,041,080 |
| West Jackson Utility District | 11,180,287 | 8,236,769 |
| | <u>\$ 164,900,908</u> | <u>115,615,994</u> |

5. GRANT AWARDS.

The Fund is funded by Capitalization Grants from the EPA authorized by Section 1452 of the SDWA Amendments of 1996 and matching funds from the State. All federal funds drawn are recorded as grant awards from the EPA. As of June 30, 2014, the EPA has awarded capitalization grants of \$158,909,566 to the State, of which \$150,941,025 has been drawn for loans and administrative expenses. The State has provided matching funds of \$29,843,000 from seven general obligation bond issues by the State. The proceeds from these bonds were deposited into the Fund for state matching. In 2014, the Board used \$619,994 from the Emergency Revolving Loan Fund as additional match funds. The following summarizes the capitalization grants awarded, amounts drawn on each grant and balances available for future loans:

| Year | Grant Amount | Draws | | | Available June 30, 2014 |
|--|-----------------------|--------------------------|---------------------|--------------------------|----------------------------|
| | | Through June 30, 2013 | 2014 Draws | Through June 30, 2014 | |
| 1997 | \$ 16,474,200 | 16,474,200 | | 16,474,200 | 0 |
| 1998 | 8,271,700 | 8,271,700 | | 8,271,700 | 0 |
| 1999 | 8,669,500 | 8,669,500 | | 8,669,500 | 0 |
| 2000 | 9,010,100 | 9,010,100 | | 9,010,100 | 0 |
| 2001 | 9,047,400 | 9,047,400 | | 9,047,400 | 0 |
| 2002 | 8,052,500 | 8,052,500 | | 8,052,500 | 0 |
| 2003 | 8,004,100 | 8,004,100 | | 8,004,100 | 0 |
| 2004 | 8,303,100 | 8,303,100 | | 8,303,100 | 0 |
| 2005 | 8,285,500 | 8,285,500 | | 8,285,500 | 0 |
| 2006 | 8,229,300 | 8,229,300 | | 8,229,300 | 0 |
| 2007 | 8,229,000 | 8,229,000 | | 8,229,000 | 0 |
| 2008 | 8,146,000 | 8,146,000 | | 8,146,000 | 0 |
| 2009 | 8,146,000 | 8,146,000 | | 8,146,000 | 0 |
| 2010 | 14,125,000 | 13,899,030 | 225,970 | 14,125,000 | 0 |
| 2011 | 9,811,166 | 9,727,748 | 83,418 | 9,811,166 | 0 |
| 2012 | 9,341,000 | 2,226,487 | 6,411,789 | 8,638,276 | 702,724 |
| 2013 | 8,764,000 | 0 | 1,498,183 | 1,498,183 | 7,265,817 |
| | <u>\$ 158,909,566</u> | <u>142,721,665</u> | 8,219,360 | <u>150,941,025</u> | 7,968,541 |
| Receivable, June 30, 2013 | | | (81,156) | | |
| Receivable, June 30, 2014 | | | <u>33,684</u> | | <u>(33,684)</u> |
| Grant revenues, modified accrual basis | | | <u>\$ 8,171,888</u> | | |
| Amount available, modified accrual basis | | | | | <u>\$ 7,934,857</u> |

STATE OF MISSISSIPPI
 Department of Health
 Drinking Water Systems Improvements Revolving Loan Fund
 Notes to Financial Statements
 June 30, 2014

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

| Description | Contributions Through June 30, 2013 | Fiscal Year 2014 Contributions | Contributions Through June 30, 2014 |
|----------------------|---|--------------------------------------|---|
| State of Mississippi | \$ 28,843,000 | \$ 1,619,994 | \$ 30,462,994 |

6. ARRA GRANT AWARDS.

In 2009, the EPA awarded the Fund a \$19,500,000 American Recovery and Reinvestment Act of 2009 grant. The Fund did not begin drawing funds from the grant until fiscal year 2010. As of June 30, 2014, the Fund has drawn \$19,500,000 for loans and administrative expenses. There is no matching requirement for this grant.

The Fund has disbursed loans and administrative and small system technical assistance expenses totaling \$19,500,000 from grant funds received or accrued. Provisions of the grant require the Fund to use at least 50% of grant funds to provide additional subsidization to water systems in the form of principal forgiveness. In fiscal year ended June 30, 2010, the Fund granted principal forgiveness of \$6,693,622. In fiscal year ended June 30, 2011, the Fund granted principal forgiveness of \$3,197,144 for a total through June 30, 2014 of \$9,890,766.

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

| Year | ARRA Grant Amount | Draws | | | Available June 30, 2014 |
|---|-------------------------|--------------------------|---------------|--------------------------|----------------------------|
| | | Through June 30, 2013 | 2014 Draws | Through June 30, 2014 | |
| 2009 | \$ 19,500,000 | 19,500,000 | 0 | 19,500,000 | 0 |
| | <u>\$ 19,500,000</u> | <u>19,500,000</u> | 0 | <u>19,500,000</u> | 0 |
| Receivable, June 30, 2013 | | | 0 | | |
| Receivable, June 30, 2014 | | | <u>0</u> | | <u>0</u> |
| ARRA grant revenues, modified accrual basis | | | <u>\$ 0</u> | | |
| Amount available, modified accrual basis | | | | | <u>\$ 0</u> |

7. CONTINGENCIES.

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Drinking Water Systems Improvements Revolving Loan Fund (the Fund) of the Local Governments and Rural Water Systems Improvements Board, as administered by the Mississippi State Department of Health, an agency of the State of Mississippi, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Fund's internal control over financial reporting 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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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.

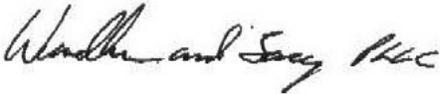
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 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 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
October 27, 2014

Windham and Lacey, PLLC

Certified Public Accountants

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Mississippi Society of CPAs

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

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

We have audited the financial statements of the Drinking Water Systems Improvements Revolving Loan Fund (the Fund) of the Local Governments and Rural Water Systems Improvements Board, as administered by the Mississippi State Department of Health, an agency of the State of Mississippi, as of and for the year ended June 30, 2014, and have issued our report thereon dated October 27, 2014.

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

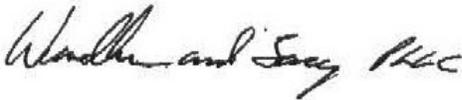
- Activities allowed or unallowed,
- Allowable costs/cost principles,
- Cash management,
- State matching,
- Period of availability of federal funds and binding commitments,
- Procurement, suspension and debarment,
- Program income,
- Reporting,
- Subrecipient monitoring, and
- Special tests and provisions

that are applicable to the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board for the year ended June 30, 2014. The management of the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board is responsible for the Fund's compliance with those requirements. Our responsibility is to express an opinion on those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Fund's compliance with those requirements.

In our opinion, the Fund complied, in all material respects, with the requirements governing activities allowed or unallowed; allowable costs/cost principles; cash management; state matching; period of availability of federal funds and binding commitments; procurement, suspension and debarment; program income; reporting; subrecipient monitoring; and special tests and provisions that are applicable to the Drinking Water Systems Improvements Revolving Loan Fund of the Local Governments and Rural Water Systems Improvements Board for the year ended June 30, 2014.

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

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

Windham and Lacey, PLLC
October 27, 2014