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MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

**SELECTED FUND FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2013

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

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INDEPENDENT AUDITOR'S REPORT

To the Commission on Environmental Quality
Mississippi Department of Environmental Quality
Jackson, Mississippi

We have audited the accompanying financial statements of State Treasury Funds 3584 and 3586 of the Mississippi Department of Environmental Quality as of and for the year ended June 30, 2013, 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. 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

To the Commission on Environmental Quality
Mississippi Department of Environmental Quality

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.

Basis for Adverse Opinion

As discussed in Note 1, the financial statements present only Funds 3584 and 3586. Accounting principles generally accepted in the United States of America require that the Mississippi Department of Environmental Quality's financial statements present the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Mississippi Department of Environmental Quality.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion" paragraph, the financial statements referred to above do not present fairly, the financial position of the Mississippi Department of Environmental Quality as of June 30, 2013, or the changes in financial position or cash flows thereof for the year then ended.

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 and 3586 of the Mississippi Department of Environmental Quality as of June 30, 2013, 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.

To the Commission on Environmental Quality
Mississippi Department of Environmental Quality

Other Matters

Required Supplementary Information

Management has omitted the Management Discussion and Analysis and the Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2013 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.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
October 4, 2013

EXHIBIT A

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

BALANCE SHEET
TREASURY FUNDS 3584 and 3586
JUNE 30, 2013

ASSETS

	<u>FUND 3584</u>	<u>FUND 3586</u>
ASSETS		
Cash and cash equivalents	\$ 44,790,462	\$ 4,854,201
Accounts receivable, net of allowances	297,184	350,100
Due from other funds	-	517,755
Due from federal government	45,625	3,934,699
Due from other government	-	15,267
Advance to cafeteria plan	-	45,167
Interest receivable	21,583	-
	<u>21,583</u>	<u>-</u>
Total assets	<u>\$ 45,154,854</u>	<u>\$ 9,717,189</u>

LIABILITIES , DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

LIABILITIES

Accounts payable and accrued expenses	\$ 1,260,542	\$ 1,471,545
Due to subrecipients	-	72,993
Due to other funds	-	244,389
Due to other governments	364,395	5,806
Funds held for others	-	154,789
	<u>-</u>	<u>154,789</u>

Total liabilities

1,624,937

1,949,522

DEFERRED INFLOWS OF RESOURCES

Unavailable revenue - fines, penalties and assessments	<u>50,153</u>	<u>174,650</u>
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FUND BALANCES

Restricted for recreation and resources development	<u>43,479,764</u>	<u>7,593,017</u>
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**Total liabilities, deferred inflows of resources
and fund balances**

\$ 45,154,854

\$ 9,717,189

See the independent auditor's report and accompanying notes to financial statements.

EXHIBIT B

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TREASURY FUNDS 3584 and 3586
YEAR ENDED JUNE 30, 2013

	<u>FUND 3584</u>	<u>FUND 3586</u>
REVENUES		
Taxes:		
Gasoline and other motor fuel	\$ 9,550,835	\$ -
Licenses, fees, and permits	13,700,454	14,730
Other fines and penalties	39,655	6,062,620
Federal sources	549,336	18,353,783
Investment income	566,738	-
Charges for sales and services	11,547	174,724
Donations	12,450,000	396
Miscellaneous revenue	127	156,717
Total revenues	<u>36,868,692</u>	<u>24,762,970</u>
EXPENDITURES		
Current:		
Salaries	4,626,314	12,995,798
Travel	50,731	557,484
Contractuals	10,222,918	15,279,414
Commodities	87,781	542,742
Capital outlay	39,612	361,791
Subsidies	11,282,190	1,793,396
Miscellaneous	-	44,184
Total expenditures	<u>26,309,546</u>	<u>31,574,809</u>
Excess of revenues over (under) expenditures	<u>10,559,146</u>	<u>(6,811,839)</u>
OTHER FINANCING SOURCES (USES)		
Transfers from other funds	100,000	12,567,575
Transfers to other funds	(5,441,093)	(3,033,447)
Transfers of federal grant funds from other funds	-	3,094,438
Transfers of federal grant funds to other funds	-	(798,075)
Total other financing sources (uses)	<u>(5,341,093)</u>	<u>11,830,491</u>
Excess of revenues over (under) expenditures and other financing sources (uses)	5,218,053	5,018,652
FUND BALANCE - BEGINNING	<u>38,261,711</u>	<u>2,574,365</u>
FUND BALANCE - ENDING	<u>\$ 43,479,764</u>	<u>\$ 7,593,017</u>

See the independent auditor's report and accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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 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 at 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.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO FINANCIAL STATEMENTS

PAGE TWO

YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 \$385,676 and \$4,136,839 for Funds 3584 and 3586, respectively.

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.

Changes in Accounting Standards - The Agency implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in the current year. The provisions of this standard have been incorporated into the financial statements and the notes.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

Subsequent Events - In connection with the preparation of the financial statements, management of the Agency has evaluated subsequent events through October 4, 2013, which is the date the financial statements were available to be issued.

NOTE 2 - INTERFUND TRANSACTIONS

At June 30, 2013, interfund transfers consisted of the following:

Fund 3584 - Transferred to

Fund 3471	\$ 417,412
Fund 3586	5,023,681
	<hr/>
Total transfers to other funds	\$ 5,441,093

Fund 3586 - Transferred To

Fund 3301	\$ 10,000
Fund 3471	2,923,447
Fund 3584	100,000
	<hr/>
Total transfers to other funds	\$ 3,033,447

Fund 3584 - Transferred From

Fund 3586	\$ 100,000
	<hr/>

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED JUNE 30, 2013

NOTE 2 - INTERFUND TRANSACTIONS (Cont.)

Fund 3586 - Transferred From

Fund 2471	\$	173,579
Fund 3584		5,023,681
Fund 3585		5,545,484
Fund 3588		274,002
Fund 3590		(2,681)
Fund 3592		20,691
Fund 3596		7,232
Fund 3597		532,160
Fund 3725		105,179
Fund 372K		745,071
Fund 372S		143,177
		<hr/>
Total transfers from other funds	\$	12,567,575
		<hr/>

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 \$3,094,438 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 \$798,075, 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, 2013, due to/from other funds consisted of the following:

Due from		Due to Fund 3586
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Fund 3450	\$	154,228
Fund 341W		247,596
Fund 3728		115,931
		<hr/>
	\$	517,755
		<hr/>

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED JUNE 30, 2013

NOTE 2 - INTERFUND TRANSACTIONS (Cont.)

Due to	Due from Fund 3586
Fund 3143	\$ 9,632
Fund 3486	218,164
Fund 3122	3,340
Fund 3596	13,253
	<u>\$ 244,389</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 2014.

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

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED JUNE 30, 2013

NOTE 4 - DUE FROM FEDERAL GOVERNMENT

At June 30, 2013, due from other governments consisted of amounts due from federal governmental entities for the following funds:

<u>Due from</u>	<u>Due to Fund 3584</u>
United States Environmental Protection Agency	<u>\$ 45,625</u>
<u>Due from</u>	<u>Due to Fund 3586</u>
United States Environmental Protection Agency	\$ 1,974,376
United States Department of Homeland Security	1,808,152
United States Department of Defense	151,687
United States Department of Interior	480
United States Department of Commerce	4
	<u>\$ 3,934,699</u>

The entire amounts are expected to be collected in fiscal year 2014.

NOTE 5 - DUE FROM AND TO OTHER GOVERNMENTS

At June 30, 2013, due from other governments consisted of the following:

<u>Due from</u>	<u>Due to Fund 3586</u>
National Aeronautics and Space Administration	<u>\$ 15,267</u>

These are payable to other governmental entities not reported in the State's CAFR. The entire amount is expected to be collected in fiscal year 2014.

Due to other governments from Funds 3584 and 3586 of \$364,395 and \$5,806, respectively, represent small invoices payable to other governmental entities not reported in the State's CAFR. The entire amounts are expected to be paid in fiscal year 2014.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO FINANCIAL STATEMENTS

PAGE SEVEN

YEAR ENDED JUNE 30, 2013

NOTE 6 - 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 14.26% 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 fiscal year ended June 30, 2013 for the selected funds were as follows: Fund 3584 - \$511,054 and Fund 3586 - \$1,362,044.

NOTE 7 - 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 report date, all costs have been funded through grant proceeds or legislation.

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.

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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**

To the Commission on Environmental Quality
 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 audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of State Treasury Funds 3584 and 3586 of the Mississippi Department of Environmental Quality (the Agency) as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated October 4, 2013.

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 (internal control) 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.

To the Commission on Environmental Quality
Mississippi Department of Environmental Quality

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 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.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
October 4, 2013

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

**Audited Financial Statements
June 30, 2013
(With Comparative Totals for June 30, 2012)**

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

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Windham and Lacey, PLLC

Certified Public Accountants

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Members:
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Mississippi Society of CPAs

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, 2013, 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, 2013, 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 27, 2013, 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 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.

A handwritten signature in cursive script, appearing to read "Windham and Lacey, PLLC".

Windham and Lacey, PLLC
September 24, 2013

**STATE OF MISSISSIPPI
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING LOAN FUND
BALANCE SHEET
JUNE 30, 2013**

ASSETS	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Equity in internal investment pool	\$ 121,363,559	116,921,277
Receivables:		
Interest	55,549	26,176
Due from other governments	338,497,379	332,140,970
Due from federal government	<u>1,312,090</u>	<u>1,007,899</u>
TOTAL ASSETS	\$ <u>461,228,577</u>	<u>450,096,322</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Warrants payable	\$ 2,784,992	267,042
Due to other governments	<u>8,066,363</u>	<u>8,755,474</u>
TOTAL LIABILITIES	<u>10,851,355</u>	<u>9,022,516</u>
FUND BALANCE:		
Restricted for recreation and resources development	<u>450,377,222</u>	<u>441,073,806</u>
TOTAL FUND BALANCE	<u>450,377,222</u>	<u>441,073,806</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>461,228,577</u>	<u>450,096,322</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, 2013**

	June 30, 2013	June 30, 2012
REVENUES:		
Interest on loans	\$ 5,216,562	6,140,762
Interest on investments	1,444,454	1,216,800
Federal programs	5,291,994	7,937,432
Federal programs: ARRA		166,613
	<hr/>	<hr/>
TOTAL REVENUES	11,953,010	15,461,607
	<hr/>	<hr/>
EXPENDITURES:		
Subsidies	4,928,720	2,727,904
	<hr/>	<hr/>
EXCESS OF REVENUES OVER EXPENDITURES	7,024,290	12,733,703
	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES):		
Transfers in	785,923	1,681,954
Transfers out	(2,157,203)	(2,866,942)
	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	(1,371,280)	(1,184,988)
	<hr/>	<hr/>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	5,653,010	11,548,715
	<hr/>	<hr/>
FUND BALANCE:		
Beginning of year	441,073,806	429,525,091
Prior period adjustment	3,650,406	0
	<hr/>	<hr/>
Restated fund balance - beginning of year	444,724,212	429,525,091
	<hr/>	<hr/>
End of year	\$ 450,377,222	441,073,806
	<hr/>	<hr/>

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, 2013

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, 2013, Congress authorized the EPA to award \$286,997,893 in capitalization grants to the State of Mississippi (the State). The State is required to contribute \$57,399,579, 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, 2013.

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, 2013

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

A prior period adjustment of \$3,650,406 has been made 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, 2013, the State's total pooled deposits and investments for state agencies were approximately \$3.4 billion, and the average remaining life of the securities invested was 3.6 years. The earnings for the total pooled investments for the year ended June 30, 2013 were approximately \$7.7 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, 2013, the Fund had approximately \$121.3 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

STATE OF MISSISSIPPI
Department of Environmental Quality
Clean Water State Revolving Loan Fund
Notes to Financial Statements
June 30, 2013

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.

STATE OF MISSISSIPPI
Department of Environmental Quality
Clean Water State Revolving Loan Fund
Notes to Financial Statements
June 30, 2013

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, 2013, 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, 2013, is as follows:

	<u>Loans Authorized</u>	<u>Authorized Amount Remaining</u>	<u>Cumulative Repayments</u>	<u>Balance</u>
Completed projects	\$ 560,706,153		258,971,578	301,734,575
Projects in progress	<u>141,891,937</u>	<u>105,129,133</u>		<u>36,762,804</u>
Totals	<u>\$ 702,598,090</u>	<u>105,129,133</u>	<u>258,971,578</u>	338,497,379
Less amount due within one year on completed projects				<u>(24,161,526)</u>
Due from other governments, long-term				<u>\$ 314,335,853</u>

Loans mature at various intervals through June 30, 2033. The scheduled principal payments on loans maturing in subsequent years are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2014	\$ 24,161,526
2015	23,880,102
2016	23,031,292
2017	20,491,993
2018	20,001,026
Thereafter	<u>226,931,440</u>
	<u>\$ 338,497,379</u>

STATE OF MISSISSIPPI
Department of Environmental Quality
Clean Water State Revolving Loan Fund
Notes to Financial Statements
June 30, 2013

Major Loans to Political Subdivisions

As of June 30, 2013, the Fund had made loans to 26 local agencies that, in the aggregate, exceeded \$5,000,000 for each local agency. The outstanding balances of these loans represent approximately 73% of the total loans receivable, as follows:

Local Agency	Authorized Loan Amount	Loan Receivable Balance at June 30, 2013
City of Greenwood	\$ 46,904,072	6,150,492
City of Jackson	42,981,377	10,941,819
Desoto County WWA	39,893,675	27,066,209
City of Gulfport	38,514,243	25,739,159
City of McComb	38,337,279	32,439,664
City of Corinth	33,031,607	9,762,245
City of Tupelo	31,004,667	23,143,442
Harrison County WW	19,886,857	6,459,150
City of Clinton	18,605,873	10,471,260
City of Laurel	17,817,468	8,199,859
West Rankin Utility Authority	15,518,730	8,761,082
City of Greenville	12,253,008	4,009,184
Southern Regional WW	11,323,026	10,114,104
Jackson County UA	11,202,022	8,627,637
City of Brandon	9,955,021	6,072,434
City of Vicksburg	9,825,639	4,351,281
Hancock County WW	8,849,247	7,741,759
City of Oxford	8,813,809	7,510,089
Horn Lake	7,698,546	2,680,134
City of Cleveland	7,543,552	5,104,624
West Jackson County Utility	6,432,363	4,226,615
City of Pontotoc	6,408,591	3,902,401
City of Moss Point	5,657,673	4,012,056
City of Hattiesburg	5,650,110	1,550,075
City of Gautier	5,454,626	3,998,882
Madison County WW	5,250,790	4,260,784
Totals	\$ <u>464,813,871</u>	<u>247,296,440</u>

The authorized loan amount includes both completed projects and projects in progress. As of June 30, 2013, cumulative principal repayments on completed projects from the above local agencies total \$127,535,122 and amounts remaining to be disbursed on projects in progress total \$65,151,229.

STATE OF MISSISSIPPI
Department of Environmental Quality
Clean Water State Revolving Loan Fund
Notes to Financial Statements
June 30, 2013

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, 2013, the EPA has awarded capitalization and hardship grants of \$288,042,893 to the State, of which \$274,510,423 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 6/30/2012	2013 Draws	Draws Through 6/30/2013	Available 6/30/2013
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	
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	11,033,982	4,544,354	15,578,336	2,778,664
2011	13,304,000	2,106,745	443,449	2,550,194	10,753,806
Totals	\$ 288,042,893	269,522,620	4,987,803	274,510,423	13,532,470
Receivable, June 30, 2012			(1,007,898)		
Receivable, June 30, 2013			1,312,090		1,312,090
Grant revenues, modified accrual basis			\$ 5,291,995		
Amount available, modified accrual basis					\$ 12,220,380

STATE OF MISSISSIPPI
Department of Environmental Quality
Clean Water State Revolving Loan Fund
Notes to Financial Statements
June 30, 2013

As of June 30, 2012 and 2013, state matching contributions were as follows:

	Contributions through 6/30/2012	Fiscal Year 2013 Contributions	Contributions through 6/30/2013
State of Mississippi	\$ 53,771,895	\$ 997,582	\$ 54,769,477

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.

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, 2013, totaled \$1,331,044, including interest of \$103,075. During that period, \$910,028 was expended from available administrative fee funds for administrative costs of the Fund. An additional \$532,160 was expended for administrative costs and of this amount, \$443,449 was drawn in fiscal year 2013 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, 2013, 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, 2013, and administrative assistance expenses totaling \$736,399 from grant funds received for a total of \$35,308,300.

STATE OF MISSISSIPPI
Department of Environmental Quality
Clean Water State Revolving Loan Fund
Notes to Financial Statements
June 30, 2013

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 6/30/2012</u>	<u>2013 Draws</u>	<u>Draws Through 6/30/2013</u>	<u>Available 6/30/2013</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.

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 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, 2013, and have issued our report thereon dated September 24, 2013. 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.

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 over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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


Our consideration of the internal controls over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

A handwritten signature in black ink, appearing to read "Windham and Lacey, PLLC".

Windham and Lacey, PLLC
September 24, 2013

Windham and Lacey, PLLC

Certified Public Accountants

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**Independent Auditor's Report on Compliance
with the Requirements Applicable to the
Environmental Protection Agency's
Capitalization Grants for 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, 2013, and have issued our report thereon dated September 24, 2013.

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

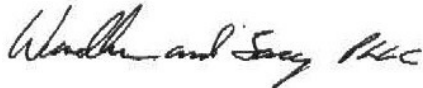
- Activities allowed or unallowed,
- Allowable costs/cost principles,
- Cash management,
- State matching,
- Period of availability of federal funds and binding commitments,
- Procurement, suspension and debarment,
- Program income,
- Reporting,
- Subrecipient monitoring, and
- Special tests and provisions

that are applicable to the Clean Water State Revolving Loan Fund Program for the year ended June 30, 2013. 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, 2013.

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 black ink, appearing to read "Windham and Lacey, PLLC".

Windham and Lacey, PLLC
September 24, 2013

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

Audited Financial Statements
June 30, 2013

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, 2013, 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

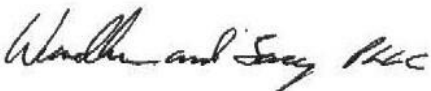
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2013, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United 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 11, 2013, 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 11, 2013

**STATE OF MISSISSIPPI
DEPARTMENT OF ENVIRONMENTAL QUALITY
HUD/MDA SUB-GRANT FUND
BALANCE SHEET
JUNE 30,2013**

	<u>June 30, 2013</u>
ASSETS	
Cash in State Treasury	\$ 75,060
Receivables:	
Due from other funds	<u>2,664,379</u>
TOTAL ASSETS	<u>\$ 2,739,439</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Due to other governments	\$ <u>2,740,231</u>
TOTAL LIABILITIES	<u>2,740,231</u>
FUND BALANCE	
Restricted for Recreation and Resources Development	<u>(792)</u>
TOTAL FUND BALANCE	<u>(792)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,739,439</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, 2013**

	<u>June 30, 2013</u>
REVENUES	
Federal Sub Grants Received from Funds	\$ <u>22,590,910</u>
TOTAL REVENUES	<u>22,590,910</u>
EXPENDITURES	
Subsidies	<u>22,591,702</u>
TOTAL EXPENDITURES	<u>22,591,702</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(792)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(792)
FUND BALANCE	
Beginning of year	<u>0</u>
End of year	\$ <u><u>(792)</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, 2013

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, 2013

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 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, 2013, and have issued our report thereon dated November 11, 2013. 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.

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 over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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

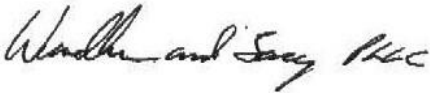
Our consideration of the internal controls over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 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

This report is intended 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.

A handwritten signature in black ink, appearing to read "Windham and Lacey, PLLC".

Windham and Lacey, PLLC
November 11, 2013

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

Audit of Schedule of Federal Grant Activity Transferred in From Another State Agency
For the Year Ended June 30, 2013

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 programs of the Mississippi Department of Environmental Quality for the year ended June 30, 2013.

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 programs 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 programs 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 programs 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 present fairly, in all material respects, the federal grant activity transferred in from another state agency as of June 30, 2013 for the selected major programs in conformity with accounting principles generally accepted in the United States of America.

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

Windham and Lacey, PLLC
November 11, 2013

**Mississippi Department of Environmental Quality
Federal Grant Activity Transferred In From Another State Agency
For the Year Ended June 30, 2013**

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	4/1/06-1/31/14	341W	3471	\$ 35,366,488		75,300		75,300		-
	GULF COAST WATER/STORM WATER	R102-0011	4/1/06-1/31/14	341W	3586		14,177	7,573,362	68,592	7,578,402	59,455	5,040
	GULF COAST WATER/STORM WATER	R102-0011	4/1/06-1/31/14	341W	3589		191,114	26,690,452	861,474	26,941,541	921,449	251,089
14.228	GULF COAST WATER/STORM WATER	R102-0012	1/1/07-1/30/14	341W	3471	\$537,352,447	11,455	308,397	65,327	314,522	59,997	6,125
	GULF COAST WATER/STORM WATER	R102-0012	1/1/07-1/30/14	341W	3586		231,379	38,752,623	2,700,738	38,995,179	2,711,915	242,556
	GULF COAST WATER/STORM WATER	R102-0012	1/1/07-1/30/14	341W	3589		10,655,588	446,802,787	27,722,515	449,067,580	19,331,720	2,264,793
	GULF COAST WATER/STORM WATER	R102-0012	1/1/07-1/30/14	341W	3590			154,283		154,283		-
14.228	GULF COAST WATER/STORM WATER	R102-0013	6/22/07-12/31/13	341W	3589	\$ 55,000,000	144,888	52,937,805	2,334,132	53,086,302	2,337,741	148,497
												-
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	11,248,601	598,295,009	33,752,778	601,213,109	25,422,277	2,918,100

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, 2013

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 programs 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 the Schedule of Federal Grant Activity Transferred in From Another State Agency for the selected major programs of the Mississippi Department of Environmental Quality for the year ended June 30, 2013, and have issued our report thereon dated November 11, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mississippi Department of Environmental Quality's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Mississippi Department of Environmental Quality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mississippi Department of Environmental Quality's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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.

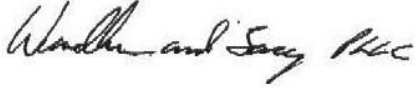
Our consideration of the internal controls over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mississippi Department of Environmental Quality's financial statement 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

This report is intended 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.

A handwritten signature in black ink, appearing to read "Windham and Lacey, PLLC".

Windham and Lacey, PLLC
November 11, 2013

Windham and Lacey, PLLC

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE SELECTED MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mississippi Department of Environmental Quality
Jackson, Mississippi

Compliance

We have audited the compliance of the selected major 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 its major federal program for the year ended June 30, 2013. Mississippi Department of Environmental Quality's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Mississippi Department of Environmental Quality's management. Our responsibility is to express an opinion on Mississippi Department of Environmental Quality's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination on Mississippi Department of Environmental Quality's compliance with those requirements.

In our opinion, Mississippi Department of Environmental Quality, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Internal Control Over Compliance

The management of Mississippi Department of Environmental Quality is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mississippi Department of Environmental Quality's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 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 noncompliance with a type of compliance requirement of a federal program material will not be prevented or detected and corrected on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Purpose of this Report

This report is intended solely to describe the scope of our testing of compliance and internal control over 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* and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Windham and Lacey, PLLC
November 11, 2013

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, 2013

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: Unqualified

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: Unqualified

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 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.