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MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

**SELECTED FUND FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2016

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

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MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

INDEPENDENT AUDITOR'S REPORT

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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Mississippi Department of Environmental Quality
Jackson, Mississippi

We have audited the accompanying financial statements of State Treasury Funds 2247100000, 3358100000, 3358400000, 3358600000, 5358600000 and 5358900000 of the Mississippi Department of Environmental Quality as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Unmodified Opinion

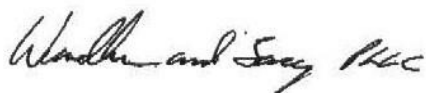
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of State Treasury Funds 2247100000, 3358100000, 3358400000, 3358600000, 5358600000 and 5358900000 of the Mississippi Department of Environmental Quality as of June 30, 2016, and the changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements referred to above are intended to present only the financial position and results of operations of State Treasury Funds 2247100000, 3358100000, 3358400000, 3358600000, 5358600000, and 5358900000 of the Mississippi Department of Environmental Quality, a department of the State of Mississippi. These statements are not intended to present the financial position and results of operations for the State of Mississippi or the Mississippi Department of Environmental Quality, of which State Treasury Funds 2247100000, 3358100000, 3358400000, 3358600000, 5358600000 and 5358900000 are a part.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2017, on our consideration of the Mississippi Department of Environmental Quality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the selected funds. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mississippi Department of Environmental Quality's internal control over financial reporting and compliance.



Windham and Lacey, PLLC
January 13, 2017

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

FINANCIAL STATEMENTS

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

Exhibit A

Balance Sheet

Treasury Funds 2247100000, 3358100000, 3358400000, 3358600000, 5358600000 and 5358900000

June 30, 2016

	<u>Fund</u> <u>2247100000</u>	<u>Fund</u> <u>3358100000</u>	<u>Fund</u> <u>3358400000</u>	<u>Fund</u> <u>3358600000</u>	<u>Fund</u> <u>5358600000</u>	<u>Fund</u> <u>5358900000</u>
ASSETS						
Cash and cash equivalents	\$ 1,054,781	84,067	39,192,712	4,964,880	(3,859,534)	
Accounts receivable, net of allowances			73,880	1,647,716	226,775	
Due from other funds			7,584	1,758,023	57,686	1,471,196
Due from other government					1,579,482	
Total Assets	<u>\$ 1,054,781</u>	<u>84,067</u>	<u>39,274,176</u>	<u>8,370,619</u>	<u>(1,995,591)</u>	<u>1,471,196</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
LIABILITIES						
Accounts payable and accrued expenses	\$ 549,348	15,394	2,007,011	1,389,323	3,699,244	(61,872)
Due to other funds	576,314		359,870	1,113,749	486,911	
Due to other governments	66,276		1,048,684	2,234	76,513	1,533,068
Due to component units	77					
Funds held for others				154,789		
Total Liabilities	<u>1,192,015</u>	<u>15,394</u>	<u>3,415,565</u>	<u>2,660,095</u>	<u>4,262,668</u>	<u>1,471,196</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - fines, penalties and assessments	<u>0</u>	<u>0</u>	<u>18,297</u>	<u>144,845</u>	<u>0</u>	<u>0</u>
FUND BALANCES						
Committed for recreation and resources development	(137,234)					
Restricted for recreation and resources development		68,673	35,840,314	5,565,679	(6,258,259)	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,054,781</u>	<u>84,067</u>	<u>39,274,176</u>	<u>8,370,619</u>	<u>(1,995,591)</u>	<u>1,471,196</u>

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

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

Statement of Revenues, Expenditures and Changes in Fund Balances

Treasury Funds 2247100000, 3358100000, 3358400000, 3358600000, 5358600000 and 5358900000

Year Ended June 30, 2016

Exhibit B

	<u>Fund</u> <u>2247100000</u>	<u>Fund</u> <u>3358100000</u>	<u>Fund</u> <u>3358400000</u>	<u>Fund</u> <u>3358600000</u>	<u>Fund</u> <u>5358600000</u>	<u>Fund</u> <u>5358900000</u>
REVENUES						
Taxes:						
Gasoline and other motor fuel	\$		9,980,022			
Licenses, fees and permits			12,229,232	13,395		
Other fines and penalties						
Federal sources				3,392,378	13,286,764	
Investment income			370,656			
Charges for sales and services			15,208	72,309	61,420	
Donations				1,022,982	1,647,867	
Miscellaneous revenue			167,717	1,430,314	9,061	
Total Revenues	<u>0</u>	<u>0</u>	<u>22,762,835</u>	<u>5,931,378</u>	<u>15,005,112</u>	<u>0</u>
EXPENDITURES						
Current:						
Salaries	8,853,348		3,423,055	4,082,434	6,396,752	
Travel	191,139		40,126	78,885	180,491	
Contractuals	1,548,744		766,598	6,813,962	8,321,977	
Commodities	390,224		50,897	123,448	310,162	
Capital outlay	113,485		59,316	70,103	163,204	
Subsidies	229,302	464,175	11,052,473	497,711	3,255,200	10,397,720
Indirect costs					2,947,290	
Total Expenditures	<u>11,326,242</u>	<u>464,175</u>	<u>15,392,465</u>	<u>11,666,543</u>	<u>21,575,076</u>	<u>10,397,720</u>
Excess of Revenues Over (Under) Expenditures	<u>(11,326,242)</u>	<u>(464,175)</u>	<u>7,370,370</u>	<u>(5,735,165)</u>	<u>(6,569,964)</u>	<u>(10,397,720)</u>

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

Statement of Revenues, Expenditures and Changes in Fund Balances

Treasury Funds 2247100000, 3358100000, 3358400000, 3358600000, 5358600000 and 5358900000

Year Ended June 30, 2016

(Exhibit B Continued)

	Fund 2247100000	Fund 3358100000	Fund 3358400000	Fund 3358600000	Fund 5358600000	Fund 5358900000
OTHER FINANCING SOURCES (USES)						
Transfers from other funds	11,760,270		99,700	11,159,500	518,114	
Transfers to other funds	(566,572)		(4,315,373)	(5,977,064)		
Transfers of federal grant funds from other funds				26,487		10,397,720
Transfers of federal grant funds to other funds					(569,577)	
Total Other Financing Sources (Uses)	<u>11,193,698</u>	<u>0</u>	<u>(4,215,673)</u>	<u>5,208,923</u>	<u>(51,463)</u>	<u>10,397,720</u>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	(132,544)	(464,175)	3,154,697	(526,242)	(6,621,427)	0
FUND BALANCE - BEGINNING	<u>(4,690)</u>	<u>532,848</u>	<u>32,685,617</u>	<u>6,091,921</u>	<u>363,168</u>	<u></u>
FUND BALANCE - ENDING	<u>\$ (137,234)</u>	<u>68,673</u>	<u>35,840,314</u>	<u>5,565,679</u>	<u>(6,258,259)</u>	<u>0</u>

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

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO FINANCIAL STATEMENTS

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

Year Ended June 30, 2016

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 2247100000 of the Agency is the general appropriation fund for the Agency and accounts for the operations of the Agency. Treasury Fund 3358100000 of the Agency accounts for the Deepwater Horizon oil spill funds transferred in from the Department of Marine Resources. Treasury Fund 3358400000 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 3358600000 of the Agency is primarily 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. Treasury Fund 5358600000 of the Agency is the designated fund to account for air and water pollution grants received from the federal government or federal funds transferred in from another state agency. Treasury Fund 5358900000 of the Agency accounts for the HUD/MDA sub-grant funds to provide funds for planning, emergency grants to local governments and administrative expenses of the Agency.

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.

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

Receivables – Receivables represent amounts due to the Agency for revenues earned that will be collected sometime in the future. Receivables are reported net of allowances for uncollectible accounts of \$73,880, \$1,647,716 and \$226,775 for Funds 3358400000, 3358600000 and 5358600000, 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:

Committed - This includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

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

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

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

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
Selected Fund Financial Statements and
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Year Ended June 30, 2016

Subsequent Events – In connection with the preparation of the financial statements, management of the Agency has evaluated subsequent events through January 13, 2017, which is the date the financial statements were available to be issued. There were no events noted in this period that should be reported.

NOTE 2 – INTERFUND TRANSACTIONS

At June 30, 2016, interfund transfers consisted of the following:

Fund 2247100000 - Transferred To

MDEQ Funds	\$ <u>566,572</u>
Total	\$ <u><u>566,572</u></u>

Fund 3358400000 - Transferred To

MDEQ Funds	\$ <u>4,315,373</u>
Total Transfers To Other Funds	\$ <u><u>4,315,373</u></u>

Fund 3358600000 - Transferred To

MDEQ Funds	\$ <u>5,977,064</u>
Total Transfers To Other Funds	\$ <u><u>5,977,064</u></u>

Fund 2247100000 - Transferred From

MDEQ Funds	\$ <u>11,760,270</u>
Total Transfers To Other Funds	\$ <u><u>11,760,270</u></u>

Fund 3358400000 - Transferred From

Fund 3348600000	\$ <u>99,700</u>
Total Transfers From Other Funds	\$ <u><u>99,700</u></u>

Fund 3358600000 - Transferred From

MDEQ Funds	\$ <u>11,159,500</u>
Total Transfers From Other Funds	\$ <u><u>11,159,500</u></u>

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
Selected Fund Financial Statements and
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Year Ended June 30, 2016

(Continued)

Fund 5358600000 - Transferred From

MDEQ Funds	\$ <u>518,114</u>
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Total Transfers From Other Funds	\$ <u><u>518,114</u></u>
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MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
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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 5358600000, transfers of federal grant funds to other funds of \$569,577 represent amounts in the form of interfund transfers that have been reported as grant revenues in the respective transferring funds. In Fund 5358900000, transfers of federal grant funds from other funds of \$10,397,720 represent amounts in the form of interfund transfers that have been reported as grant expenditures in the respective transferring funds.

At June 30, 2016, Due To/From Other Funds consisted of the following:

<u>Due From</u>	<u>Due To Fund 3358400000</u>
	\$
Mississippi State Treasury for interest	<u>7,584</u>
Total	\$ <u><u>7,584</u></u>
<u>Due From</u>	<u>Due To Fund 3358600000</u>
	\$
MDEQ Funds for indirect cost transfers	<u>1,758,023</u>
Total	\$ <u><u>1,758,023</u></u>
<u>Due From</u>	<u>Due To Fund 5358600000</u>
	\$
Mississippi Emergency Management Agency	<u>57,686</u>
Total	\$ <u><u>57,686</u></u>
<u>Due From</u>	<u>Due To Fund 5358900000</u>
	\$
MDA Fund 5341W00000	<u>1,471,196</u>
Total	\$ <u><u>1,471,196</u></u>

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
Selected Fund Financial Statements and
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(Continued)

<u>Due To</u>	<u>Due From Fund 2247100000</u>
MDEQ Funds for indirect cost transfers	\$ <u>576,314</u>
Total	\$ <u><u>576,314</u></u>
<u>Due To</u>	<u>Due From Fund 3358400000</u>
MDEQ Funds for indirect cost transfers	\$ <u>359,870</u>
Total	\$ <u><u>359,870</u></u>
<u>Due To</u>	<u>Due From Fund 3358600000</u>
MDEQ Funds for indirect transfers	\$ <u>1,113,749</u>
Total	\$ <u><u>1,113,749</u></u>
<u>Due To</u>	<u>Due From Fund 5358600000</u>
Mississippi Department of Marine Resources	\$ <u>486,911</u>
Total	\$ <u><u>486,911</u></u>

Due to/from other funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made. All balances are expected to be received or paid in fiscal year 2017.

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.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
Selected Fund Financial Statements and
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Year Ended June 30, 2016

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 overage 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.

NOTE 4 – DUE FROM AND TO OTHER GOVERNMENTS

<u>Due From</u>	<u>Due To Fund 5358600000</u>
United States Environmental Protection Agency	\$ 1,449,832
United States Department of Defense	120,661
United States Department of the Treasury	8,557
United States Department of Education	<u>432</u>
Total	\$ <u>1,579,482</u>
<u>Due To</u>	<u>Due From Fund 2247100000</u>
Other Governments	\$ <u>66,276</u>
<u>Due To</u>	<u>Due From Fund 3358400000</u>
Other Governments	\$ <u>1,048,684</u>
<u>Due To</u>	<u>Due From Fund 3358600000</u>
Other Governments	\$ <u>2,234</u>

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
Selected Fund Financial Statements and
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Year Ended June 30, 2016

(Continued)

<u>Due To</u>	<u>Due From Fund 5358600000</u>
Other Governments	\$ <u>76,513</u>
<u>Due To</u>	<u>Due From Fund 5358900000</u>
Other Governments	\$ <u>1,533,068</u>

The entire amounts are expected to be paid in fiscal year 2017.

NOTE 5 – ACCOUNTS RECEIVABLE

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

	<u>Fund 3358400000</u>	<u>Fund 3358600000</u>	<u>Fund 5358600000</u>
Accounts Receivable, Current	\$ 82,456	1,761,250	226,775
Accounts Receivable, Noncurrent	<u>494,900</u>	<u>4,303,589</u>	<u> </u>
Gross Receivables	577,356	6,064,839	226,775
Allowance for Uncollectibles, Current	(8,576)	(113,534)	
Allowance for Uncollectibles, Noncurrent	<u>(494,900)</u>	<u>(4,303,589)</u>	<u> </u>
Net Total Accounts Receivable	\$ <u>73,880</u>	<u>1,647,716</u>	<u>226,775</u>

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.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
Selected Fund Financial Statements and
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Year Ended June 30, 2016

Funding Policy – PERS members are required to contribute 9.00% of their annual covered salary and the Agency is required to contribute at an actuarially determined rate. The current rate is 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. PERS contributions for the fiscal year ended June 30, 2016 for the selected funds were as follows: Fund 2247100000 - \$925,079, Fund 3358400000 - \$1,156, Fund 3358600000 - \$23,244 and Fund 5358600000 - \$2,426,378.

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 the 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.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

SPECIAL REPORT

Windham and Lacey, PLLC

Certified Public Accountants

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(601)939-8676

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

Mississippi Department of Environmental Quality
Jackson, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of State Treasury Funds 2247100000, 3358100000, 3358400000, 3358600000, 5358600000 and 5358900000 of the Mississippi Department of Environmental Quality (the Agency) as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated January 13, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements for State Treasury Funds 2247100000, 3358100000, 3358400000, 3358600000, 5358600000 and 5358900000 are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Windham and Lacey, PLLC
January 13, 2017



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

Schedule of Changes in Accrued Compensated Absences
For the Year Ended June 30, 2016

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

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INDEPENDENT AUDITOR'S REPORT

Mississippi Department of Environmental Quality
Jackson, Mississippi

Report on the Financial Statements

We have audited the accompanying Schedule of Changes in Accrued Compensated Absences of the Mississippi Department of Environmental Quality for the year ended June 30, 2016, and the related note to the schedule.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the Schedule of Changes in Accrued Compensated Absences referred to above presents fairly, in all material respects, the changes in accrued compensated absences of the Mississippi Department of Environmental Quality as of June 30, 2016, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report, dated December 5, 2016, on our consideration of the Mississippi Department of Environmental Quality's internal control over the reporting of accrued compensated absences and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the reporting of accrued compensated absences and compliance and the results of that testing, and not to provide an opinion on internal control over the reporting of accrued compensated absences or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Windham and Lacey, PLLC
December 5, 2016

**Mississippi Department of Environmental Quality
Schedule of Changes in Compensated Absences
For the Year Ended June 30, 2016**

Accrued Compensated Absences:

Beginning Balance	\$	2,113,247
Additions		1,217,616
Deletions		<u>(1,245,174)</u>
Ending Balance	\$	<u><u>2,085,689</u></u>

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

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

Note to Schedule of Changes in Accrued Compensated Absences
For the Year Ended June 30, 2016

NOTE 1 – BASIS OF PRESENTATION

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

MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY

SUPPLEMENTARY INFORMATION

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

Mississippi Department of Environmental Quality
Jackson, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Schedule of Changes in Accrued Compensated Absences for the Mississippi Department of Environmental Quality for the year ended June 30, 2016, and the related note to the financial statement, and have issued our report thereon dated December 5, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schedule of Changes in Accrued Compensated Absences for the Mississippi Department of Environmental Quality is free of material misstatement, we performed tests of the Mississippi Department of Environmental Quality's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Windham and Lacey, PLLC
December 5, 2016



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

**Audited Financial Statements
June 30, 2016
(With Comparative Totals for June 30, 2015)**

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

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Independent Auditor's Report

Commission on Environmental Quality
Mississippi Department of Environmental Quality

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund (the Fund), as of and for the year ended June 30, 2016, 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

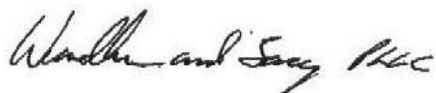
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United 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 December 5, 2016, on our consideration of the State of Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Windham and Lacey, PLLC
December 5, 2016

**STATE OF MISSISSIPPI
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING LOAN FUND
BALANCE SHEET
JUNE 30, 2016**

ASSETS	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Equity in internal investment pool	\$ 94,934,101	105,535,306
Receivables:		
Interest		
Due from other funds	18,306	69,944
Due from other governments	408,760,475	389,551,630
Due from federal government	<u>3,363,045</u>	<u>581,036</u>
TOTAL ASSETS	\$ <u>507,075,927</u>	<u>495,737,916</u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Warrants payable	\$	
Due to other governments	10,405,271	10,873,405
Due to other funds	<u>94,301</u>	
TOTAL LIABILITIES	<u>10,499,572</u>	<u>10,873,405</u>
 FUND BALANCE:		
Restricted for Recreation and Resources Development	<u>496,576,355</u>	<u>484,864,511</u>
TOTAL FUND BALANCE	<u>496,576,355</u>	<u>484,864,511</u>
 TOTAL LIABILITIES AND FUND BALANCE	\$ <u>507,075,927</u>	<u>495,737,916</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, 2016**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
REVENUES		
Interest on loans	\$ 4,773,740	5,137,988
Interest on investments	941,779	929,690
Federal programs	<u>8,230,460</u>	<u>7,027,612</u>
TOTAL REVENUES	<u>13,945,979</u>	<u>13,095,290</u>
EXPENDITURES		
Subsidies	<u>1,652,317</u>	<u>1,827,417</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>12,293,662</u>	<u>11,267,873</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	9,489,611	7,223,636
Transfers out	<u>(10,071,429)</u>	<u>(7,136,887)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(581,818)</u>	<u>86,749</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>11,711,844</u>	<u>11,354,622</u>
FUND BALANCE		
Beginning of year	<u>484,864,511</u>	<u>473,509,889</u>
End of year	<u>\$ 496,576,355</u>	<u>484,864,511</u>

See accompanying Notes to Financial Statements.

STATE OF MISSISSIPPI
Department of Environmental Quality
Clean Water State Revolving Loan Fund
Notes to Financial Statements
June 30, 2016

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, 2016, Congress authorized the EPA to award \$333,360,986 in capitalization grants to the State of Mississippi (the State). The State is required to contribute \$66,672,197 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, 2016.

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 they are 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, 2016

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.

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, 2016, 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 2.89 years. The earnings for the total special funds pooled investments for the year ended June 30, 2016 were approximately \$21.8 million.

STATE OF MISSISSIPPI
Department of Environmental Quality
Clean Water State Revolving Loan Fund
Notes to Financial Statements
June 30, 2016

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, 2016, the Fund had approximately \$95 million in the Treasurer's internal investment pool. The total deposits and investments of the internal investment pool are categorized according to credit risk in the State of Mississippi's Comprehensive Annual Financial Report. However, the Fund's portion of the internal investment pool cannot be individually categorized because the deposits and investments are pooled with other state agencies.

4. DUE FROM OTHER GOVERNMENTS AND CREDIT RISK.

The Fund makes loans to qualified political subdivisions for projects that meet the eligibility requirements of the Act. Loans are financed by capitalization grants, state match, loan repayments and interest earnings. Interest rates on loans vary between 1.75% and 4.5%, and are generally repaid over 20 years starting within one year after the project is completed. Details of loans receivable as of June 30, 2016, 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, 2016, is as follows:

	<u>Loans Authorized</u>	<u>Authorized Amount Remaining</u>	<u>Cumulative Repayments</u>	<u>Balance</u>
Completed projects	\$ 670,764,715		331,550,792	339,213,923
Projects in progress	<u>155,020,544</u>	<u>85,473,992</u>		<u>69,546,552</u>
Totals	<u>\$ 825,785,259</u>	<u>85,473,992</u>	<u>331,550,792</u>	408,760,475
Less amount due within one year on completed projects				<u>(26,992,322)</u>
Due from other governments, long-term				<u>\$ 381,768,153</u>

Loans mature at various intervals through June 30, 2036. The scheduled principal payments on loans maturing in subsequent years are as follows:

<u>Year Ending June 30:</u>	<u>Amount</u>
2017	\$ 26,992,322
2018	26,441,226
2019	25,478,881
2020	25,017,670
2021	25,188,867
Thereafter	<u>279,641,509</u>
Total	<u>\$ 408,760,475</u>

STATE OF MISSISSIPPI
Department of Environmental Quality
Clean Water State Revolving Loan Fund
Notes to Financial Statements
June 30, 2016

Major Loans to Political Subdivisions

As of June 30, 2016, the Fund had made loans to 31 local agencies that, in the aggregate, exceeded \$5,000,000 for each local agency. The outstanding balances of these loans represent approximately 69% of the total loans receivable, as follows:

Local Agency	Authorized Loan Amount	Loan Receivable Balance at June 30, 2016
DeSoto County WWA	\$ 63,179,923	\$ 28,218,576
City of Jackson	58,525,362	24,368,334
City of Tupelo	48,238,678	26,644,481
City of Greenwood	46,904,072	5,027,337
City of McComb	38,072,547	29,225,983
City of Corinth	35,933,827	29,998,274
City of Gulfport	34,277,693	20,408,972
West Rankin Utility Authority	21,048,513	19,025,444
City of Clinton	19,901,442	7,588,173
Harrison County WW	18,797,259	2,143,752
City of Cleveland	17,103,461	3,985,228
Jackson County UA	16,102,022	7,042,555
City of Laurel	15,512,145	11,534,407
West Jackson County Utility	14,280,283	3,272,517
City of Southaven	12,227,822	11,639,486
City of Biloxi	12,173,622	2,898,627
Southern Regional WW	11,323,026	10,114,103
City of West Point	9,996,954	7,568,761
City of Brandon	9,955,021	4,226,961
City of Vicksburg	9,825,639	2,658,949
City of Meridian	8,955,225	0
Hancock County WW	8,849,247	7,741,759
City of Oxford	8,813,809	6,341,295
Pearl River County UA	7,580,556	1,360,519
Horn Lake	7,087,343	1,715,455
City of Clarksdale	6,789,000	4,018,552
City of Pontotoc	6,408,591	3,078,923
City of Moss Point	5,657,673	3,117,055
City of Hattiesburg	5,650,110	384,857
City of Gautier	5,454,626	3,204,896
Madison County WW Authority	5,250,790	3,539,428
City of Greenville	5,041,826	353,386
Totals	\$ <u>594,918,107</u>	\$ <u>292,447,045</u>

The authorized loan amount includes both completed projects and projects in progress. As of June 30, 2016, cumulative principal repayments on completed projects from the above local agencies total \$160,332,404 and amounts remaining to be disbursed on projects in progress total \$85,672,784.

STATE OF MISSISSIPPI
Department of Environmental Quality
Clean Water State Revolving Loan Fund
Notes to Financial Statements
June 30, 2016

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, 2016, the EPA has awarded capitalization and hardship grants of \$334,405,986 to the State, of which \$309,541,867 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 6/30/2015	2016 Draws	Draws Through 6/30/2016	Available 6/30/2016
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	18,357,000		18,357,000	
2011	13,304,000	13,225,801	78,199	13,304,000	
2012	9,136,093	8,374,400	761,693	9,136,093	
2013	12,028,000	7,754,322	4,080,421	11,834,743	193,257
2014	12,632,000		528,138	528,138	12,103,862
2015	12,567,000				12,567,000
Totals	\$ <u>334,405,986</u>	<u>304,093,416</u>	5,448,451	<u>309,541,867</u>	24,864,119
Receivable, June 30, 2015			(581,036)		
Receivable, June 30, 2016			<u>3,363,045</u>		<u>3,363,045</u>
Grant revenues, modified accrual basis			\$ <u>8,230,460</u>		
Amount available, modified accrual basis					\$ <u>21,501,074</u>

STATE OF MISSISSIPPI
Department of Environmental Quality
Clean Water State Revolving Loan Fund
Notes to Financial Statements
June 30, 2016

As of June 30, 2015 and 2016, state matching contributions were as follows:

	Contributions through 6/30/2015	Fiscal Year 2016 Contributions	Contributions through 6/30/2016
State of Mississippi	\$ <u>60,686,364</u>	\$ <u>1,089,691</u>	\$ <u>61,776,055</u>

6. ADMINISTRATIVE FEES/COSTS.

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

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.

Administrative fees collected for the fiscal year ended June 30, 2016, totaled \$1,636,132 with additional amounts collected for interest totaling \$98,987 for total receipts of \$1,735,119. During that period, \$743,035 was expended from available administrative fee funds for administrative costs of the Fund. An additional \$621,735 was expended for administrative costs and of this amount, \$460,427 was drawn in fiscal year 2016 from the federal government. A total of \$57,686 was drawn after June 30, 2016 from the federal government.

7. 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.

8. 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 nine 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, or during the entire forbearance period for loans in Hancock County, 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.

STATE OF MISSISSIPPI
Department of Environmental Quality
Clean Water State Revolving Loan Fund
Notes to Financial Statements
June 30, 2016

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Mississippi Society of CPAs

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

Commission on Environmental Quality
Mississippi Department of Environmental Quality

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the State of Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund, as of and for the year ended June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated December 5, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mississippi Department of Environmental Quality Clean Water State Revolving Loan Fund's internal control to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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


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

Compliance and Other Matters

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

Purpose of this Report

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

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

Windham and Lacey, PLLC
December 5, 2016

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, 2016, and have issued our report thereon dated December 5, 2016.

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

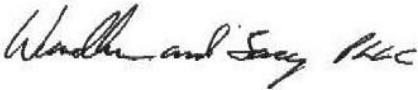
- Activities allowed or unallowed,
- Allowable costs/cost principles,
- Cash management,
- State matching,
- Period of availability of federal funds and binding commitments,
- Procurement, suspension and debarment,
- Program income,
- Reporting,
- Subrecipient monitoring, and
- Special tests and provisions

that are applicable to the Clean Water State Revolving Loan Fund Program for the year ended June 30, 2016. 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, 2016.

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
December 5, 2016