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Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

Independent Auditor's Reports and Financial Statements

June 30, 2018



Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

June 30, 2018

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Independent Auditor's Report

Local Governments and Rural Water Systems Improvements Board
Drinking Water Systems Improvements Revolving Loan Fund,
as administered by the Mississippi State Department of Health,
an agency of the State of Mississippi
Jackson, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the Drinking Water Systems Improvements Revolving Loan Fund (the Fund), as administered by the Mississippi State Department of Health, an agency of the State of Mississippi, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Fund's basic 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, 2018, and the changes in its financial position 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 the changes in financial position of the Drinking Water Systems Improvements Revolving Loan Fund, as administered by the Mississippi State Department of Health, an agency of the State of Mississippi. These statements are not intended, and do not purport, to present the financial position and the changes in financial position of the State of Mississippi or the Mississippi State Department of Health. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Management has omitted the management's discussion and analysis 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 Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2019, on our consideration of the Fund's internal control over financial reporting and 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 the effectiveness of the Fund's 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 the Fund's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
February 18, 2019

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)
Statement of Financial Position
June 30, 2018

Assets

Equity in internal investment pool	\$ 90,031,152
Receivables:	
Loans receivable	59,808,713
Due from other governments	102,645,194
Due from federal government	4,984,643
Due from other funds	<u>35,822</u>
 Total assets	 <u><u>\$ 257,505,524</u></u>

Liabilities and Net Assets

Liabilities

Warrants payable	\$ 102,830
Accounts payable	1,347,089
Due to other funds	154,464
Due to other governments	<u>2,893,582</u>
 Total liabilities	 <u>4,497,965</u>

Fund Balance

Restricted for health and social service	<u>253,007,559</u>
 Total liabilities and fund balance	 <u><u>\$ 257,505,524</u></u>

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2018

Revenues

Interest on loans	\$ 2,168,290
Interest on investments	1,037,082
Loan administration fee	948,707
Federal program grants	<u>13,319,422</u>
Total revenues	<u>17,473,501</u>

Expenditures

Administrative expenses	189,644
Principal forgiveness	<u>2,054,394</u>
Total expenditures	<u>2,244,038</u>

Excess of Revenues over Expenditures	<u>15,229,463</u>
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Other Financing Uses

Transfers out, net	<u>(1,310,431)</u>
Total other financing uses	<u>(1,310,431)</u>

Excess of Revenues Over Expenditures and Other Financing Uses	13,919,032
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Fund Balance, Beginning of Year	<u>239,088,527</u>
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Fund Balance, End of Year	<u><u>\$ 253,007,559</u></u>
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Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

Notes to Financial Statements

June 30, 2018

Note 1: Background Information and Summary of Significant Accounting Policies

Background Information

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

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

Federal funds are provided through federal capitalization grants pursuant to Section 1452 of the SDWA Amendments of 1996. The amount of each grant is determined by the State's allocated share of the U.S. Environmental Protection Agency (EPA) annual federal appropriation for the program. The award of each grant is conditioned on the State depositing an amount into the Fund equaling 20% of the amount of each federal capitalization grant. The State Legislature authorized the issuance of the State general obligation bonds to provide State funds for the program. \$29,843,000 of the proceeds from the sale of these bonds has been deposited into the Fund. During the year ended June 30, 2018, the State authorized \$3,000,000 in bonds which were issued subsequent to June 30, 2018, bringing the total of State funds available for match to \$32,843,000. These funds are invested by the State Treasurer until such time that the funds are needed to meet State matching requirements on loan payments. The Fund also receives direct appropriations from the State Legislature and amounts from other funds authorized by the Board. As of June 30, 2018, the EPA had awarded \$194,308,565 in capitalization grants to the State, requiring a minimum of \$38,861,713 in State matching funds.

In 2009, the Fund also received \$19,500,000 of American Recovery and Reinvestment Act (ARRA) funds; however, these funds were not subject to State matching funds.

The Fund is administered by the Mississippi State Department of Health (MSDH) under the direction of the Board. MSDH's primary activities include loans for drinking water systems and management and coordination of the Fund. The Board consists of the following nine voting members: the State Health Officer; the Executive Directors of the Mississippi Development

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
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Notes to Financial Statements

June 30, 2018

Authority, the Department of Environmental Quality, the Department of Finance and Administration, the Mississippi Association of Supervisors, the Mississippi Municipal League, and the American Council of Engineering Companies of Mississippi; the State Director of the United States Department of Agriculture, Rural Development; and a manager of a rural water system. The manager of a rural water system is appointed by the Governor from a list of candidates provided by the Executive Director of the Mississippi Rural Water Association. Nonappointed members of the Board may designate another representative of their agency or association to serve as an alternate. The gubernatorial appointee serves a term concurrent with the Governor and until a successor is appointed.

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

The Fund represents Funds 5331500000, 6330300000, 6331B00000 and 6331C00000 selected for audit by the State of Mississippi, Office of the State Auditor, and the accompanying statements are not intended, and do not purport, to present the financial position and results of operations for the State of Mississippi or MSDH.

Basis of Presentation

The accompanying fund financial statements 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).

Basis of Accounting/Measurement Focus

The Fund presents its financial statements as a governmental 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 GASB pronouncements.

The Fund first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

Budget Information

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
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Notes to Financial Statements

June 30, 2018

of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Cash consists of amounts on deposit with the State Treasury.

Loans Receivable and Due From Other Governments

The Fund operates as a direct loan program, whereby loans made to drinking water systems are approximately 80% funded by the federal capitalization grant and 20% by the State matching amount. Loan funds are disbursed to the loan recipients upon receipt of a request from the loan recipient for the purposes of the loan. Interest is calculated from the initial contract completion date. After the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed, plus interest accrued from initial contract completion date to initiation of repayment process, less principal forgiveness granted on the loan.

Loans receivable represents amounts due from water associations. Due from other governments represents amounts due from cities and counties.

Interfund Receivables/Payables

Transactions between funds that are representative of short-term lending/borrowing arrangements that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as “due to other funds” or “due from other funds.” Noncurrent portions of interfund payables, if any, are reported as “advances to other funds” or “advances from other funds.”

Fund Balance – Governmental Funds

Although governmental funds can contain five classifications, all the fund balance of the Fund are restricted. The fund balance for the Fund’s governmental funds are displayed as applicable in five components. Restricted funds are amounts that can be spent only for the specific purposes stipulated by external resource providers constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Risk Management

The Fund is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. MSDH maintains insurance for some risks of loss. Risks of loss related to torts are administered by the Mississippi Tort Claims Board. Since its inception in 1996, there have not been any claims against the Fund.

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

Notes to Financial Statements

June 30, 2018

Note 2: Equity in Internal Investment Pool

All monies of the Fund are deposited with the State Treasury 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, 2018, the State's total pooled deposits and investments for State agencies were approximately \$3.325 billion, and the average remaining life of the securities invested was 2.01 years. The earnings for the total pooled investments for the year ended June 30, 2018 were approximately \$13.3 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, 2018, the Fund had approximately \$90 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.

Custodial risk is the risk that in the event of bank failure, a government's deposits may not be returned. The Fund's deposit policy for protection of custodial risk is handled under a statewide collateral program. The collateral for public entities' deposits in financial institutions is held by the depository bank in the name of the State Treasurer under a program established by the State of Mississippi Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entities' funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Note 3: Loans Receivable and Due from Other Governments and Credit Risk

The Fund makes loans to qualified drinking water systems for projects that meet the eligibility requirements of the SDWA. Loans are financed by capitalization grants, ARRA grants, State match and revolving funds. Interest rates on loans vary between 1.95% to 4.5% and are generally repaid over 20 years, starting as specified in the loan agreement; the beginning date is normally at the end of the project construction, which is usually a one-year time period. Details of loans receivable as of June 30, 2018, are described below.

In the event of a default on a loan obligation by a public entity, MSDH has certain legal remedies that are intended to provide for ultimate collection of amounts due. Based on past history, management believes that no allowance for doubtful accounts is necessary.

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

Notes to Financial Statements

June 30, 2018

Loans by Category

Loans receivable (including amounts due from other governments) at June 30, 2018, are as follows:

Description	Loans Authorized	Authorized Amount Remaining	Loan Balance
Completed projects	\$ 239,810,664	\$ -	\$ 146,377,970
Projects in progress	<u>75,035,679</u>	<u>58,959,748</u>	<u>16,075,937</u>
Totals	<u>\$ 314,846,343</u>	<u>\$ 58,959,748</u>	162,453,907
Less amount due within one year on completed projects			<u>(10,385,361)</u>
Loans receivable and due from other governments, long-term			<u>\$ 152,068,546</u>

Loan Administrative Fees

The Fund collects administrative fees from each loan recipient at 5% of the initial loan amount. Beginning July 1, 2009, the Fund collects administrative fees from the interest portion of loan repayments. Interest payments from each loan recipient are reclassified to administrative fee income until the entire administrative fee for that loan has been collected. Loan administrative fee revenue of \$948,707 was collected in 2018.

Major Loans to Drinking Water Systems

As of June 30, 2018, the Fund had made loans to 42 drinking water systems that, in the aggregate, exceeded \$1,500,000, net of principal forgiveness. The outstanding balances of these loans represent approximately 75% of the total loans receivable, as follows:

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
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Notes to Financial Statements

June 30, 2018

Local Agency	Authorized Loan Amount	Outstanding Balance
Adams County Water Association	\$ 2,844,725	\$ 1,027,156
Bear Creek Water Association	14,046,420	3,432,106
Center Water	1,905,594	1,751,117
Central Yazoo	1,663,587	1,401,944
City of Baldwin	1,610,110	1,354,758
City of Brookhaven	2,500,000	95,925
City of Clinton	4,552,211	3,140,646
City of Columbia	1,741,864	1,451,103
City of Hernando	2,177,042	700,940
City of Horn Lake	4,636,612	2,121,995
City of Laurel	4,804,390	4,074,940
City of Long Beach	1,521,484	315,766
City of Madison	1,957,707	1,774,126
City of Meridan	8,114,960	254,212
City of Ocean Springs	5,497,240	2,951,516
City of Pearl	4,924,984	3,225,497
City of Picayune	3,758,705	86,811
City of Port Gibson	2,389,835	2,279,535
City of Richland	3,823,889	557,773
City of Ridgeland	2,750,338	2,108,445
City of Southaven	11,270,753	5,561,498
City of Tupelo	10,629,045	9,266,113
City of West Point	1,536,148	506,909
Collinsville Water Association	1,530,000	566,004
Corinth Utilities Commission	47,034,278	34,305,756
Culkin Water District	8,037,597	2,987,219
Fannin Water Association	1,566,435	511,544
Fisher Ferry Water District	3,105,984	1,514,163
Gautier	2,677,171	1,397,176
Greenfield Water Association	2,150,808	1,014,389
Greenwood Utilities	2,822,302	2,673,290
Hilldale Water District	5,406,481	3,629,382
Jackson County Utility Authority	15,909,268	2,766,686
Lewisburg Water Association	1,948,907	756,299
Northeast Mississippi Regional Water Supply District	2,677,553	593,336
Pleasant Hill Water Association	1,935,359	-
Progress Community Water Association	1,748,791	732,386
Southwest Jones Water Association	1,871,292	1,240,730
Town of Caledonia	3,285,745	2,236,635
Town of Lampton	1,856,966	1,276,176
Town of Morton	2,188,373	1,101,602
Town of Taylorsville	1,589,730	556,405
Tunica County Utility District	1,589,995	1,264,517
Walls Water Association	3,775,222	1,549,896
West Jackson Utility District	12,870,006	9,892,769
Yazoo City	5,427,188	-
	<u>233,663,094</u>	<u>122,007,191</u>

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

Notes to Financial Statements

June 30, 2018

<u>Local Agency</u>	<u>Authorized Loan Amount</u>	<u>Outstanding Balance</u>
Total major loans	\$ 233,663,094	\$ 122,007,191
Combined nonmajor loans	<u>81,183,249</u>	<u>40,446,716</u>
	<u>\$ 314,846,343</u>	<u>\$ 162,453,907</u>

Note 4: Grant Awards

The Fund is funded by Capitalization Grants from the EPA authorized by Section 1452 of the SDWA Amendments of 1996 and matching funds from the State. All federal funds drawn are recorded as grant awards from the EPA. As of June 30, 2018, the EPA has awarded capitalization grants of \$194,308,566 to the State, of which \$183,139,367 has been drawn for loans and administrative expenses. The State has provided matching funds of \$32,843,000 from nine general obligation bond issues by the State and additional funds from direct State appropriations. The proceeds from these bonds were deposited into the Fund for State matching. State appropriations, reallocation of set asides and earned interest are also sources of matching funds. The following summarizes the capitalization grants awarded, amounts drawn on each grant and balances available for future loans:

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

Notes to Financial Statements

June 30, 2018

Year	Grant Amount	Draws		Through June 30, 2018	Available June 30, 2018
		Through June 30, 2017	2018 Draws		
1997	\$ 16,474,200	\$ 16,474,200	\$ -	\$ 16,474,200	\$ -
1998	8,271,700	8,271,700	-	8,271,700	-
1999	8,669,500	8,669,500	-	8,669,500	-
2000	9,010,100	9,010,100	-	9,010,100	-
2001	9,047,400	9,047,400	-	9,047,400	-
2002	8,052,500	8,052,500	-	8,052,500	-
2003	8,004,100	8,004,100	-	8,004,100	-
2004	8,303,100	8,303,100	-	8,303,100	-
2005	8,285,500	8,285,500	-	8,285,500	-
2006	8,229,300	8,229,300	-	8,229,300	-
2007	8,229,000	8,229,000	-	8,229,000	-
2008	8,146,000	8,146,000	-	8,146,000	-
2009	8,146,000	8,146,000	-	8,146,000	-
2010	14,125,000	14,125,000	-	14,125,000	-
2011	9,811,166	9,811,166	-	9,811,166	-
2012	9,341,000	9,341,000	-	9,341,000	-
2013	8,764,000	8,764,000	-	8,764,000	-
2014	9,159,000	9,119,455	-	9,119,455	39,545
2015	9,099,000	4,500,836	4,292,904	8,793,740	305,260
2016	8,607,000	1,139,803	713,427	1,853,230	6,753,770
2017	8,534,000	-	4,463,376	4,463,376	4,070,624
	<u>\$ 194,308,566</u>	<u>\$ 173,669,660</u>	9,469,707	<u>\$ 183,139,367</u>	11,169,199
Receivable, June 30, 2017			(1,134,928)		-
Receivable, June 30, 2018			<u>4,984,643</u>		<u>(4,984,643)</u>
Grant revenues, modified accrual basis			<u>\$ 13,319,422</u>		
Amount available, modified accrual basis					<u>\$ 6,184,556</u>

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

Notes to Financial Statements

June 30, 2018

Note 5: Significant Estimates and Concentrations

Certain significant estimates and current vulnerabilities due to certain concentrations of the Fund include the following:

Economic Dependency

The Program is economically dependent upon revenue from the EPA. During 2018, the Fund received approximately 76% of total revenue in the form of federal grants.

Program Set Asides

The Fund has four set aside funds. These set aside funds make up to 31% of the annual capitalization grant awarded each year. These funds are used to provide for reimbursement of expenses of the Fund. Through federal regulations, the EPA has allowed states to redirect and reserve set asides as needed to ensure proper management of funds. Although the set asides have expiration dates, management continues to redirect those funds and has not had exposure to any recall of funds in the past five years.

Principal Forgiveness Loans

The EPA requires the Fund to provide loan forgiveness to eligible borrowers. Management provides loan forgiveness in compliance with the EPA guidelines. Principal forgiveness for the year ended June 30, 2018 totaled approximately \$2 million.

Contingency

The Fund is capitalized by state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the Fund has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectability of any related receivable at June 30, 2018, may be impaired. In the opinion of management of the Fund, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such a contingency.

**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**

Independent Auditor's Report

Local Governments and Rural Water Systems Improvements Board
Drinking Water Systems Improvements Revolving Loan Fund,
as administered by the Mississippi State Department of Health,
an agency of the State of Mississippi
Jackson, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Drinking Water Systems Improvements Revolving Loan Fund (Fund), as administered by the Mississippi State Department of Health, an agency of the State of Mississippi, which are comprised of the statement of financial position as of June 30, 2018, and the related statement of revenues, expenditures and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 18, 2019, which contained an *Emphasis of Matter* paragraph regarding the entity reflected in the financial statements and an *Other Matter* paragraph regarding the omission of management's discussion and analysis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-006 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fund's financial statements are free from 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*.

Management's Response to Findings

Management's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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.

BKD, LLP

Jackson, Mississippi
February 18, 2019

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)
Schedule of Findings and Responses
Year Ended June 30, 2018

Reference Number	Findings
2018-006	<p><i>Criteria or Specific Requirement</i> - Management is responsible for establishing and maintaining effective internal control over financial reporting, including the basic financial statements and related notes to the financial statements.</p> <p><i>Condition</i> - Drinking Water Systems Improvements Revolving Loan Fund (Fund) relies on its outside auditors to assist in the preparation of external financial statements and the related notes. Under auditing standards generally accepted in the United States of America (GAAP), outside auditors cannot be considered part of the Fund's internal control structure for financial reporting.</p> <p><i>Cause</i> - Due to the nature of the relationship between the Fund and the Mississippi Department of Health, responsibility for reconciliation, review and approval of the financial statements has not been designated to a Fund employee.</p> <p>In addition, there is no review and approval process for the daily posting of repayments in the Excel schedules used for tracking loans receivable and due from other governments. Also, no back-up exists for the same Excel schedules.</p> <p><i>Effect</i> - The potential exists for material misstatements to occur in the daily processing or year-end financial statements due to errors or fraud and not be detected in a timely manner.</p> <p><i>Recommendation</i> - We recommend management assign an employee knowledgeable about Fund activities throughout the year be responsible of overseeing preparation of the GAAP financial statements. The loan summary balance consists of over 250 loans, with the disbursements and repayments of those loans maintained in Excel schedules. Numerous errors were found related to loan forgiveness from several years ago. While adjustments to numerous individual loans in the Excel schedule were made, there had been an unreconciled difference in the schedule; therefore, no material error in the overall balance was identified.</p> <p>Management maintains comprehensive information and numerous schedules for its annual Intended Use Plans. Much of the information for the notes to the financial statements is contained in the Intended Use Plan. We recommend an individual at the Fund be assigned to gather the information needed for the notes to the financial statements.</p>

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)
Schedule of Findings and Responses
Year Ended June 30, 2018

Reference Number	Findings
	<p><i>Views of Responsible Officials and Planned Corrective Actions</i> - Management concurs with this finding. In response, we have identified staff that will be responsible for the oversight of the preparation of the GAAP financial statements and to gather the information needed for the notes to the financial statements. In addition, management has made changes to ensure proper segregation of duties. Management is also in the process of testing new software to track loans that will alleviate the need for the large Excel schedules.</p>

Local Governments and Rural Water Systems Improvements Board
Drinking Water Systems Improvements Revolving Loan Fund,
as administered by the Mississippi State Department of Health,
an agency of the State of Mississippi
Jackson, Mississippi

As part of our audit of the financial statements of the Drinking Water Systems Improvements Revolving Loan Fund (the Fund), as administered by the Mississippi State Department of Health, an agency of the State of Mississippi, as of and for the year ended June 30, 2018, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under 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

An audit performed 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, is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Fund's significant accounting policies are described in *Note 1* of the audited financial statements.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

No matters are reportable.

Financial Statement Disclosures

The following area involves particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Loan receivable and due from other governments

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

- Unearned revenue
- Fund balance
- Accrued liabilities
- Loan forgiveness
- Loans receivable
- Subsidies
- License, fees and permits
- Due from federal government and other governments
- Cash

Proposed Audit Adjustments Not Recorded

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

No matters are reportable.

Disagreements with Management

No matters are reportable.

Significant Issues Discussed with Management

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- Complexity of the loan summary schedule
- Segregation of duties

Difficulties Encountered in Performing the Audit

Our audit requires cooperative effort between management and the audit team. During our audit, we found significant difficulties in working effectively on the following matter:

- Difficulty auditing the loan summary schedule

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter (attached)
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Fund as of and for the year ended June 30, 2018, 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, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant

deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 of the Fund's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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

A significant deficiency is a deficiency, or 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.

We observed the following matter that we consider to be a material weakness.

Material Weakness

Refer to the 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* - Independent Auditor's Report.

This communication is intended solely for the information and use of management, the Board, others within the organization and the Mississippi State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

February 18, 2019



MISSISSIPPI STATE DEPARTMENT OF HEALTH

February 18, 2019

BKD, LLP

Certified Public Accountants

190 East Capitol Street, Suite 500

Jackson, MS 39201

We are providing this letter in connection with your audit of our financial statements Drinking Water Systems Improvements Revolving Loan Fund (the Fund), as administered by the Mississippi State Department of Health, an agency of the State of Mississippi, as of and for the year ended June 30, 2018. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated August 31, 2018, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial

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statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. We have provided you with:
 - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
 - (b) Additional information that you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.
 - (d) All minutes of meetings of the governing body held through the date of this letter.
 - (e) All significant contracts and grants.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by the Fund's procedures with respect to:
 - (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets, liabilities or net position.
8. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
9. We have no knowledge of any known or suspected:
 - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Fund received in communications from employees, customers, regulators, suppliers or others.
11. We have disclosed to you the identity of the Funds's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, component units; and any other party with which the Fund may deal

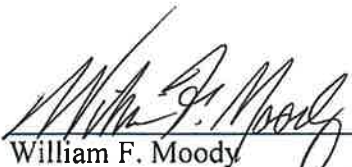
if it can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.

12. Except as reflected in the financial statements, there are no:
 - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial statements.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - (d) Events occurring subsequent to the statement of financial position date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - (e) Agreements to purchase assets previously sold.
 - (f) Restrictions on cash balances or compensating balance agreements.
 - (g) Guarantees, whether written or oral, under which the Fund is contingently liable.
13. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
14. We have no reason to believe the Fund owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.
15. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.
16. Adequate provisions and allowances have been accrued for any material losses from:
 - (a) Uncollectible receivables.
 - (b) Loan commitments, including those unable to be fulfilled.
 - (c) Purchase commitments in excess of normal requirements or above prevailing market prices.

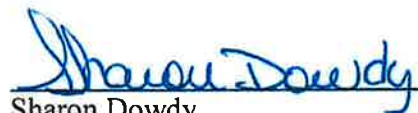
17. Except as disclosed in the financial statements, we have:
 - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
 - (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.
18. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
19. With regard to deposit and investment activities:
 - (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.
 - (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.
20. With respect to any nonattest services you have provided us during the year, including drafting the financial statements and proposing journal entries:
 - (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
21. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.
22. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
23. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be

considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.

24. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.
25. We have a process to track the status of audit findings and recommendations.
26. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.
27. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.
28. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the statement of financial position date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.



William F. Moody
Director, Bureau of Public Water Supply,
Mississippi State Department of Health



Sharon Dowdy
Chief Financial Officer, Mississippi State
Department of Health

Mississippi State Department of Health

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

Drinking Water Systems Improvement Revolving Loan Fund

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Total Assets & Deferred Outflows	257,505,524	230,452	257,735,976	0.09%
Total Liabilities & Deferred Inflows	(4,497,965)		(4,497,965)	
Total Fund Balance	(253,007,559)	(230,452)	(253,238,011)	0.09%
Revenues	(17,473,501)		(17,473,501)	
Expenditures	2,244,038	(230,452)	2,013,586	-10.27%
Change in Fund Balance	(15,229,463)	(230,452)	(15,459,915)	1.51%

													Net Effect on Following Year				
Description	Financial Statement Line Item	Factual (F), Judgmental (J), Projected (P)	Assets & Deferred		Liabilities &		Revenues		Expenditures		Fund Balance		Change in Fund		Fund		
			Outflows		Deferred Inflows								Balance		Balance		
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	
To record loan forgiveness		J		230,452		0		0		(230,452)		0		0		0	
	Subsidies									(230,452)				0		0	
	Accounts Receivable			230,452										0		0	
Total passed adjustments				230,452		0		0		(230,452)		0		0		0	
Impact on Change in Fund Balance:												(230,452)					
Impact on Fund Balance												(230,452)					