



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.

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, 2020

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, 2020

Contents

Independent Auditor's Report	1
---	----------

Financial Statements of Funds Selected for Audit – Governmental Fund Type

Statement of Financial Position	3
Statement of Revenues, Expenditures and Changes in Fund Balance	4
Notes to Financial Statements.....	5

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> – Independent Auditor's Report	15
---	-----------

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, 2020, 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, 2020, 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 January 14, 2021, 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
January 14, 2021

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, 2020

Assets

Equity in internal investment pool	\$ 103,439,084
Receivables	
Loans receivable	70,605,797
Due from other governments	104,869,070
Due from federal government	9,125,153
Due from other funds	19,427
Other	<u>269,324</u>
 Total assets	 <u><u>\$ 288,327,855</u></u>

Liabilities and Fund Balance

Liabilities

Warrants payable	\$ 252,953
Accounts payable	529,659
Due to other governments	1,253,925
Unearned revenue	<u>1,931,679</u>
 Total liabilities	 <u><u>3,968,216</u></u>

Fund Balance

Restricted for health and social service	<u>284,359,639</u>
 Total liabilities and fund balance	 <u><u>\$ 288,327,855</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, 2020

Revenues

Interest on loans	\$ 2,413,251
Interest on investments	1,957,427
Loan administration fee	1,134,609
Federal program grants	<u>5,401,301</u>
Total revenues	<u>10,906,588</u>

Expenditures

Administrative expenses	725,913
Principal forgiveness	<u>1,010,169</u>
Total expenditures	<u>1,736,082</u>

Excess of Revenues Over Expenditures	<u>9,170,506</u>
---	------------------

Other Financing Sources (Uses)

Transfers out, net	<u>(239)</u>
Total other financing uses	<u>(239)</u>

Net Change in Fund Balance	9,170,267
-----------------------------------	-----------

Fund Balance, Beginning of Year	<u>275,189,372</u>
--	--------------------

Fund Balance, End of Year	<u><u>\$ 284,359,639</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)

Notes to Financial Statements

June 30, 2020

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. \$32,843,000 of the proceeds from the sale of these bonds has been deposited into the Fund. During the year ended June 30, 2019, the State authorized \$1,000,000 in bonds which were issued during the year ended June 30, 2020, bringing the total of State funds available for match to \$33,843,000. 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, 2020, the EPA had awarded \$206,265,566 in capitalization grants to the State, requiring a minimum of \$41,253,113 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
of Health, an agency of the State of Mississippi)

Notes to Financial Statements

June 30, 2020

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

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, 2020

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 those estimates.

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 of 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; and natural disasters. 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, 2020

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, 2020, the State's total pooled deposits and investments for State agencies were approximately \$5.599 billion, and the average remaining life of the securities invested was 1.15 years. The earnings for the total pooled investments for the year ended June 30, 2020 were approximately \$29.3 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, 2020, the Fund had approximately \$103.4 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 4.50% 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, 2020, 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, 2020

Loans by Category

Loans receivable (including amounts due from other governments) at June 30, 2020, are as follows:

Description	Loans Authorized	Authorized Amount Remaining	Loan Balance
Completed projects	\$ 268,504,430	\$ -	\$ 153,428,748
Projects in progress	<u>83,592,734</u>	<u>61,546,615</u>	<u>22,046,119</u>
Totals	<u>\$ 352,097,164</u>	<u>\$ 61,546,615</u>	175,474,867
Less amount due within one year on completed projects			<u>(12,686,550)</u>
Loans receivable and due from other governments, long-term			<u>\$ 162,788,317</u>

Loan Administrative Fees

The Fund collects administrative fees from each loan recipient at 5.00% 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 \$1,134,609 was collected in 2020.

Major Loans to Drinking Water Systems

As of June 30, 2020, the Fund had made loans to 55 drinking water systems that, in the aggregate, exceeded \$1,500,000, net of principal forgiveness. The outstanding balances of these loans represent approximately 77% of the total loans receivable, as follows:

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, 2020

Local Agency	Authorized Loan Amount	Outstanding Balance
Adams County Water Association	\$ 2,844,725	\$ 675,634
Bear Creek Water Association	16,122,439	2,852,045
Burnsville	4,890,000	-
Center Water	1,905,594	1,581,469
Central Yazoo	1,518,839	1,318,002
City of Baldwin	1,610,110	1,207,591
City of Brandon	6,203,669	1,869,727
City of Brookhaven	2,250,053	2,202,881
City of Clinton	4,552,211	2,685,718
City of Columbia	1,741,864	1,290,557
City of Eupora	3,733,000	-
City of Gautier	2,677,171	1,107,667
City of Grenada	11,500,000	-
City of Hernando	2,177,042	614,483
City of Horn Lake	4,636,612	1,505,638
City of Jackson	20,018,425	7,241,724
City of Laurel	4,804,390	3,620,802
City of Long Beach	1,521,484	104,029
City of Madison	1,957,707	1,597,649
City of Meridian	1,636,300	1,152,093
City of Natchez	1,994,987	1,053,359
City of Ocean Springs	5,497,240	2,373,236
City of Pearl	4,924,984	2,727,930
City of Port Gibson	2,389,835	2,069,686
City of Richland	3,563,334	3,344,274
City of Ridgeland	2,750,338	1,847,256
City of Southaven	11,270,753	4,328,903
City of Tupelo	10,629,045	8,368,183
City of West Point	1,536,148	323,139
City of Wiggins	3,034,863	1,206,787
Collinsville Water Association	1,530,000	384,795
Corinth Utilities Commission	47,034,278	29,517,779
Culkin Water District	8,104,945	6,737,846
Fannin Water Association	2,916,953	1,617,055
Fisher Ferry Water District	3,105,984	1,152,417

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, 2020

Local Agency	Authorized Loan Amount	Outstanding Balance
Greenfield Water Association	\$ 2,150,808	\$ 773,532
Greenwood Utilities	2,822,302	2,427,193
Hilldale Water District	5,406,481	3,046,740
Jackson County Utility Authority	4,045,255	3,801,559
Lewisburg Water Association	1,948,907	496,050
Magnolia Rural Water Association	2,751,030	1,134,915
North Pike	2,130,602	1,800,281
Northeast Mississippi Regional Water Supply District	2,677,553	259,267
Pleasant Hill Water Association	1,935,359	-
Progress Community Water Association	1,748,791	630,520
Southeast Rankin	1,746,479	947,228
Southwest Jones Water Association	1,871,292	1,048,591
Town of Caledonia	3,285,745	1,916,751
Town of Lampton	1,856,966	1,101,806
Town of Morton	2,188,373	861,603
Town of Sumner	1,664,857	384,577
Town of Taylorsville	1,599,785	1,317,481
Walls Water Association	3,775,222	1,269,016
West Jackson Utility District	12,870,006	9,624,920
Yazoo City	4,927,188	2,728,494
Total major loans	271,988,323	135,250,878
Combined nonmajor loans	80,108,841	40,223,989
	<u>\$ 352,097,164</u>	<u>\$ 175,474,867</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, 2020

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, 2020, the EPA has awarded capitalization grants of \$218,110,566 to the State, of which \$201,943,827 has been drawn for loans and administrative expenses. The State has provided matching funds of \$43,622,113 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, 2020

Year	Grant Amount	Draws		Through June 30, 2020	Available June 30, 2020
		Through June 30, 2019	2020 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	9,251,204	-	9,251,204	(152,204)
2016	8,607,000	7,273,014	230,838	7,503,852	1,103,148
2017	8,534,000	8,260,765	359,587	8,620,352	(86,352)
2018	11,957,000	962,640	7,576,758	8,539,398	3,417,602
2019	11,845,000	-	-	-	11,845,000
	<u>\$ 218,110,566</u>	<u>\$ 193,776,644</u>	8,167,183	<u>\$ 201,943,827</u>	16,166,739
Net receivable, June 30, 2019			(9,959,356)		-
Net receivable, June 30, 2020			<u>7,193,474</u>		<u>(7,193,474)</u>
Grant revenues, modified accrual basis			<u>\$ 5,401,301</u>		
Amount available, modified accrual basis					<u>\$ 8,973,265</u>

Note 5: Significant Estimates and Concentrations

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

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, 2020

Economic Dependency

The Fund is economically dependent upon revenue from the EPA. During 2020, the Fund received approximately 50% 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, 2020 was \$1,010,169.

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, 2020, 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, 2020, 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 January 14, 2021, 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) as a basis for designing 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

BKD, LLP

Jackson, Mississippi
January 14, 2021