

DRINKING WATER REVOLVING LOAN FUND  
DEPARTMENT OF HEALTH AND HOSPITALS  
OFFICE OF PUBLIC HEALTH  
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT  
FOR THE YEAR ENDED JUNE 30, 2013  
ISSUED APRIL 23, 2014

**LOUISIANA LEGISLATIVE AUDITOR  
1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
BATON ROUGE, LOUISIANA 70804-9397**

**LEGISLATIVE AUDITOR**  
DARYL G. PURPERA, CPA, CFE

**FIRST ASSISTANT LEGISLATIVE AUDITOR**  
**AND STATE AUDIT SERVICES**  
PAUL E. PENDAS, CPA

**DIRECTOR OF FINANCIAL AUDIT**  
THOMAS H. COLE, CPA

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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

March 20, 2014

## Independent Auditor's Report

**DRINKING WATER REVOLVING LOAN FUND  
DEPARTMENT OF HEALTH AND HOSPITALS,  
OFFICE OF PUBLIC HEALTH  
STATE OF LOUISIANA**  
New Orleans, Louisiana

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water Revolving Loan Fund, an enterprise fund of the State of Louisiana, as of and for the year ended June 30, 2013, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water Revolving Loan Fund as of June 30, 2013, and the respective changes in financial position and cash flows 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 accompanying financial statements present only the Drinking Water Revolving Loan Fund, and do not purport to, and do not, present fairly the financial position of the State of Louisiana, the Louisiana Department of Health and Hospitals, or the Office of Public Health and their changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

Management has omitted 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 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.

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water Revolving Loan Fund's financial statements. The accompanying supplemental information schedules, including the Schedule of Net Position, by Account; the Schedule of Revenues, Expenses, and Changes in Fund Net Position, by Account; and the Schedule of Cash Flows, by Account, on pages 22 through 25, are

presented for the purpose of additional analysis and are not a required part of the financial statements of the Drinking Water Revolving Loan Fund.

The supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental information is fairly stated, in all material respects in relation, to the basic financial statements taken as a whole.

### **Other Reports Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014, on our consideration of the Drinking Water Revolving Loan Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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 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 Drinking Water Revolving Loan Fund's internal control over financial reporting and compliance.

In addition, we have issued a report dated March 20, 2014, on our consideration of the Drinking Water Revolving Loan Fund's internal control over compliance with certain laws and regulations, and our tests of its compliance with those laws and regulations, in accordance with the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

KAW:WDG:EFS:THC:ch

DWRLF 2013

**DRINKING WATER REVOLVING LOAN FUND  
DEPARTMENT OF HEALTH AND HOSPITALS,  
OFFICE OF PUBLIC HEALTH  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Net Position, June 30, 2013**

**ASSETS**

Current assets:

Cash in state treasury (note 2)	\$72,999,799
Receivables (note 3)	9,587,053
Total current assets	<u>82,586,852</u>

Noncurrent assets - loans receivable (note 4)	<u>117,745,103</u>
Total assets	<u>200,331,955</u>

**LIABILITIES**

Current liabilities (note 6)	<u>299,194</u>
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<b>NET POSITION - UNRESTRICTED</b>	<u><u>\$200,032,761</u></u>
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The accompanying notes are an integral part of this statement.

**DRINKING WATER REVOLVING LOAN FUND  
DEPARTMENT OF HEALTH AND HOSPITALS,  
OFFICE OF PUBLIC HEALTH  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Revenues, Expenses,  
and Changes in Fund Net Position  
For the Fiscal Year Ended June 30, 2013**

**OPERATING REVENUES**

Federal funds - set-aside programs	\$2,339,485
Federal funds - set-aside programs - American Recovery and Reinvestment Act	166,590
Interest earned on loans receivable	4,055,663
Interest earned on cash in state treasury	117,631
Administrative fees	643,306
Total operating revenues	<u>7,322,675</u>

**OPERATING EXPENSES**

Set-aside expenses (note 5)	2,339,485
Set-aside expenses - American Recovery and Reinvestment Act (note 5)	166,590
Bond issuance costs	29,604
Commitment fee	12,700
Interest expense	981
Principal forgiveness	4,347,445
Principal forgiveness - American Recovery and Reinvestment Act	1,204,826
Total operating expenses	<u>8,101,631</u>

**OPERATING LOSS** (778,956)

Capital contributions	19,141,671
Capital contributions - American Recovery and Reinvestment Act	3,374,485
Total capital contributions	<u>22,516,156</u>

**CHANGE IN NET POSITION** 21,737,200

**NET POSITION AT BEGINNING OF YEAR** 178,295,561

**NET POSITION AT END OF YEAR** \$200,032,761

The accompanying notes are an integral part of this statement.



**DRINKING WATER REVOLVING LOAN FUND  
DEPARTMENT OF HEALTH AND HOSPITALS,  
OFFICE OF PUBLIC HEALTH  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2013**

<b>Cash flows from operating activities</b>	
Cash received from interest on loans	\$4,008,235
Cash received from interest on cash in state treasury	111,021
Cash received from administrative fees	632,102
Cash received from repayment of loan principal	36,134,162
Cash received from allocations for set-aside programs	2,589,796
Cash payments for set-aside programs	(2,589,796)
Cash payments to borrowers	(27,269,581)
Net cash provided by operating activities	<u>13,615,939</u>
<b>Cash flows from noncapital financing activities</b>	
Contributed capital	19,141,671
Contributed capital - American Recovery and Reinvestment Act	3,374,485
Proceeds from issuance of bonds	4,220,396
Principal paid on bonds	(4,250,000)
Interest expense	(981)
Commitment fee	(12,700)
Net cash provided by noncapital financing activities	<u>22,472,871</u>
<b>Net increase in cash</b>	<b>36,088,810</b>
<b>Cash at beginning of year</b>	<u><b>36,910,989</b></u>
<b>Cash at end of year</b>	<u><u><b>\$72,999,799</b></u></u>

(Continued)

The accompanying notes are an integral part of this statement.

**DRINKING WATER REVOLVING LOAN FUND  
DEPARTMENT OF HEALTH AND HOSPITALS,  
OFFICE OF PUBLIC HEALTH  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2013**

**Reconciliation of operating loss to net cash provided  
by operating activities:**

Operating loss	(\$778,956)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Bond issue costs	29,604
Interest expense	981
Commitment fee	12,700
Changes in assets and liabilities:	
Decrease in accounts receivable	25,090
(Increase) in due from others	(6,610)
Decrease in loans receivable	14,416,852
(Decrease) in accounts payable and accrued expenses	<u>(83,722)</u>
Net cash provided by operating activities	<u><u>\$13,615,939</u></u>

**Noncash investing, capital, and financing activities**

Principal forgiveness on loans	\$4,347,445
Principal forgiveness on loans - American Recovery and Reinvestment Act	\$1,204,826

(Concluded)

The accompanying notes are an integral part of this statement.

# NOTES TO THE FINANCIAL STATEMENTS

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## INTRODUCTION

The Louisiana Department of Health and Hospitals, Office of Public Health (DHH-OPH) is a department of the State of Louisiana. DHH-OPH was created in accordance with Louisiana Revised Statutes (R.S.) 36:251(c) and 258(b) as a part of the executive branch of government. DHH-OPH is charged with protection of the public health of residents of the State of Louisiana.

The Drinking Water Revolving Loan Fund (DWRLF) program was established pursuant to the federal Safe Drinking Water Act Amendments of 1996 (SDWA). The DWRLF program provides financial assistance to both publicly and privately owned community water systems and nonprofit non-community water systems for projects eligible under the SDWA. The DWRLF program presently operates under R.S. 40:2821-2826. These statutes establish a DWRLF program capitalized by federal grants (Capitalization Grants for Drinking Water State Revolving Fund, CFDA 66.468), state funds when required or available, and any other funds generated by the operation of the program. The DWRLF program provides assistance through loans for infrastructure projects and other assistance in the form of set-aside activities for program administration, technical assistance, state program management, local assistance, and other state programs. All efforts are directed toward improving drinking water quality by assisting systems in providing drinking water that meets established standards and that achieves the goals of the SDWA.

The DHH-OPH is responsible for the operations and administration of the DWRLF program. DHH-OPH is authorized to apply for and accept capitalization grants from the United States Environmental Protection Agency (EPA), to establish assistance priorities, to perform oversight and other related activities, and to provide financial administration of the set-aside and loan accounts for the DWRLF program.

The DWRLF does not have any full-time employees. However, time spent on the DWRLF program by employees of DHH-OPH is recorded and the DWRLF subsequently reimburses DHH-OPH for salaries and benefits as well as other operating expenses of the fund.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB.

**B. REPORTING ENTITY**

GASB Codification Section 2100 establishes criteria for determining the governmental reporting entity and has defined the governmental reporting entity to be the State of Louisiana. The accompanying financial statements represent activity of a fund of the State of Louisiana that is administered by DHH-OPH, a department within state government. The DWRLF is part of the primary government of the State of Louisiana.

Annually, the State of Louisiana issues a comprehensive annual financial report, which includes the activity contained in the accompanying financial statements. Those basic financial statements are audited by the Louisiana Legislative Auditor.

**C. FUND ACCOUNTING**

For the purposes of this report, the DWRLF uses a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**D. BASIS OF ACCOUNTING**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The transactions of the DWRLF are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the Statement of Net Position.

The DWRLF uses the accrual basis of accounting. Revenues are recognized in the accounting period when they are earned and expenses are recognized when the related liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and/or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the DWRLF are federal funds and interest earnings. Operating expenses include the set-aside expenses.

**E. BUDGETS AND BUDGETARY ACCOUNTING**

The DWRLF is budgeted annually by the Louisiana Legislature. The set-aside activities are budgeted as part of the operations of DHH-OPH in the General Appropriations Act.

The Ancillary Appropriations Act (Act 43 of the 2012 Regular Session as amended) authorized expenditures of \$34,000,000 for the loan program. The fund is allowed to retain resources to fund future loans and eligible program activities. Because the fund is an enterprise fund, a budgetary comparison is neither required nor presented in the financial statements.

#### **F. LOANS RECEIVABLE**

The DWRLF is operated as a direct loan program. The program provides loans and other financial assistance to public water systems for the purpose of planning, constructing, and rehabilitating public water systems.

The program lends federal and state monies directly to public water systems. For every \$5 provided by the federal government, the state is required to provide a matching share of \$1. The effective match share reflects a federal rate of 83.33% and a state rate of 16.67%. Recycling of principal and interest repayments from borrowing water systems allows the program to operate in perpetuity thereby benefiting other water systems wishing to borrow in the future. Borrowers pay principal and interest directly to the loan program, and all monies are deposited directly to the program. Principal repayments can only be used to make additional loans to water systems. Interest earnings on investments and loans can also be used to make additional loans. In addition, with EPA approval, interest earnings on investments and loans are used to pay off revenue bonds sold to capitalize the program by providing state matching funds.

The loans made by the DWRLF must be made at or below market interest rate with a repayment period not exceeding 20 years plus an interim construction-financing period. The current loan rate is 2.95% for new water construction/water system rehabilitation projects. In addition, water systems are charged an administrative fee of 0.5% on outstanding loan balances payable semiannually. Interest and administrative fees are calculated from the date that funds are advanced and after the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed.

As evidence of its obligations to pay principal and interest on the loans, each borrower must establish a dedicated source of revenue (or in the case of a privately owned system, demonstrate that there is adequate security) for repayment of the loan [42 USC 300j-12(f)(1)(C)]. For substantially all of these loans, the loan recipient issues bonds that are purchased by DHH-OPH, as administrator of the DWRLF, to secure the repayment of the principal loaned. Principal and interest on the bonds are paid to the DWRLF and upon repayment of the loan, the bonds are returned to the loan recipient. Minimum required coverage ratios are established depending on the nature of the bonded indebtedness issued by the loan recipient as follows:

For limited tax bonds, the principal and interest due in any year on the amount borrowed shall not exceed 75% of the revenues estimated to be received from the levy of the pledged millage in the year in which the indebtedness is issued (R.S. 39:742.2).

For sales tax bonds, the total amount of principal and interest falling due in any year, together with principal and interest falling due in such year on any previously issued sales tax bonds, shall never exceed 75% of the amount of sales tax revenues estimated by the governing authority of the issue to be received by it in the calendar year in which the bonds are issued (R.S. 39:698.4).

For revenue bonds, the requirements for coverage are established contractually in the loan documents (R.S. 39:1019). Expected coverage ratios might range from 110% to 130% or more. The DWRLF goal for collections of the dedicated revenues for repayment of the loan secured by revenue bonds is 125%; however, many factors can create deviation from this goal. It is customary to use the same minimum required coverage ratio as was previously established for outstanding debt of the loan recipient.

For general obligation bonds, the requirements for coverage are statutorily set. The governing authority of the issuer is required to impose and collect annually, in excess of all other taxes, a tax on all property subject to taxation by the issuer sufficient in amount to pay the interest and the principal falling due each year, or such amount as may be required for any sinking fund necessary to retire said bonds at maturity (R.S. 39:569). Typically, the bond millage is adjusted each year so as to generate enough revenues to pay debt service in the ensuing calendar year. No coverage requirements or debt service reserves exist because the tax can be adjusted each year *without any limitation whatsoever* to collect the appropriate amount each year.

In the case of sales tax bonds and revenue bonds, each loan recipient is also required to set up a debt service reserve fund equal to 10% of the loan amount or one year's principal and interest for the purpose of paying principal and interest should the dedicated revenues be insufficient for that purpose. The requirement to maintain a debt service reserve fund is not statutorily required, but is usual and customary for these kinds of indebtedness.

Because of the reserve requirements and the absence of any delinquent loans, there is no provision for uncollectible amounts.

## **G. NET POSITION**

Net position comprises the various net earnings from operations, nonoperating revenues, and contributions of capital. Net position is classified in the following components as applicable:

Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position consists of resources subject to external constraints placed on the resources by creditors, grantors, contributors, or laws or regulations of other governments or constraints are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of all other assets that are not included in the other categories previously mentioned.

#### **H. CAPITAL CONTRIBUTIONS**

The funds drawn for loans from the EPA capitalization grants authorized by the Safe Drinking Water Act Amendments of 1996 are recorded as capital contributions. Funds drawn for loans authorized by the American Recovery and Reinvestment Act of 2009 (ARRA) are also recorded as capital contributions.

#### **I. COMPENSATED ABSENCES, PENSION BENEFITS, AND POSTRETIREMENT BENEFITS**

DHH-OPH provides employees to work on the DWRLF program. Compensated absences, pension benefits, and postretirement benefits are provided and recorded by the department and allocated to the fund based on time worked. These allocated expenses are included in the fund financial statements; however, no liability for compensated absences or postemployment benefits is recorded in the fund financial statements and no disclosures for compensated absences, pension benefits, or postretirement benefits are included in the fund financial statements, as the ultimate liability is with the department, rather than the fund.

#### **J. ESTIMATES**

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **K. ADOPTION OF NEW ACCOUNTING PRINCIPLE**

GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The implementation of Statement No. 63 primarily affected the replacement of the term “net assets” with “net position.”

## 2. CASH IN STATE TREASURY

As reflected on Statement A, the DWRLF has cash totaling \$72,999,799 at June 30, 2013. All monies of the fund are deposited with the State Treasurer's Office. Cash balances are held and controlled by the state treasurer and are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by accounting principles generally accepted in the United States are included within the State of Louisiana's financial statements.

## 3. RECEIVABLES - DUE FROM OTHERS

As shown on Statement A, the DWRLF has a total due from others of \$9,587,053. This total is comprised of the following:

Due from the federal government - set-aside programs	\$299,194
Due from water systems	9,275,486
Due from state treasury - interest	<u>12,373</u>
Total	<u><u>\$9,587,053</u></u>

Of the \$9,275,486 due from water systems, \$8,337,660 is the current portion of the principal due; \$804,339 is loan interest; and \$133,487 is administrative fees on loans.

## 4. NONCURRENT ASSETS - LOANS RECEIVABLE

The DWRLF makes loans to community water systems both privately and publicly owned and nonprofit non-community water systems for projects that meet the eligibility requirements of the program. Loans are financed by capitalization grants, state match, and revolving funds. The effective interest rate on loans is 3.45% and must be repaid over 20 years starting two years after the closing date of the loan or one year after the project is completed, whichever occurs first. As of June 30, 2013, 92 of the loans have been closed (completed drawing funds for construction) and the remaining loan commitment balance (loans authorized less loans disbursed) totals \$33,498,696. Loans mature at various intervals through June 1, 2036. The scheduled principal payments on loans maturing in subsequent years are as follows:

Year ending June 30:	
2014	\$8,337,660
2015	6,452,942
2016	6,522,900
2017	6,743,800
2018	6,968,800
2019-2023	37,988,021
2024-2028	34,151,803
2029-2033	18,687,452
2034-2036	<u>229,385</u>
Total loans receivable	<u><u>\$126,082,763</u></u>
Long-term receivable portion	<u><u>\$117,745,103</u></u>



As of June 30, 2013, the DWRLF had made 114 loans to 56 water systems as follows:

<u>Water System</u>	<u>Authorized Loan Amount</u>		<u>Loans Outstanding</u>	
	<u>Base</u>	<u>ARRA</u>	<u>Base</u>	<u>ARRA</u>
Ascension Consolidated Utilities District #1 1A		\$300,000		
Ascension Consolidated Utilities District #1 1B	\$700,000		\$644,000	
Ascension Water Co., Inc.	6,000,000			
Ascension Water Co. Inc. #2	5,000,000			
Avoyelles Ward One Water System	1,550,000		922,108	
Bayou Des Cannes Water System, Inc. Loan 1A	15,752	650,948		
Bayou Des Cannes Water System, Inc. Loan 1B	1,555,820		1,415,820	
Beauregard Parish WWD#3	3,000,000		434,653	
Buckeye Water District #50	400,000		342,000	
Buckeye WD #50 Loan 2 - A		684,000		\$304,000
Buckeye WD #50 Loan 2 - B	458,000		408,000	
Calcasieu #8-1A		384,000		172,000
Calcasieu #8-1B	257,000		229,000	
Calcasieu #8-1C	209,000		175,000	
City of Alexandria #1A		1,000,000		
City of Alexandria #1B	3,390,000		3,021,000	
City of Alexandria #2	7,610,000		4,467,275	
City of Baker 1A	1,272,745	727,255	683,294	276,706
City of Baker 1B	2,200,000		1,024,000	
City of Bogalusa 1A		2,000,000		958,000
City of Bogalusa 1B	3,000,000		2,761,000	
City of Franklin -1A		811,000		
City of Franklin - 1B	1,894,000		1,672,000	
City of Mansfield 1-A		1,000,000		
City of Mansfield 1-B	3,120,000		2,842,350	
City of Mansfield #2	1,550,000		1,046,000	
City of Mansfield #3	3,280,000		2,502,756	
City of Monroe	3,000,000		2,430,000	
City of Morgan City 1A		1,000,000		
City of Morgan City 1B	1,750,000		1,625,000	
City of Morgan City 1W	1,234,000		1,031,881	
City of Natchitoches	3,500,000		2,085,000	
City of Natchitoches 2A	247,645	1,752,355	123,823	837,177
City of Natchitoches 2B	3,000,000		2,143,034	
City of Oakdale	1,492,412		811,412	
City of Ruston 1A	139,313	1,860,687		867,243
City of Ruston 1B	1,334,000		1,227,000	
City of Shreveport #1	7,000,000		4,170,000	
City of Shreveport #2	7,000,000		4,170,000	
City of Shreveport #3	5,540,000		3,300,000	

<u>Water System</u>	Authorized Loan Amount		Loans Outstanding	
	Base	ARRA	Base	ARRA
City of Shreveport #4A		\$2,000,000		\$921,000
City of Shreveport #4B	\$8,206,175	486,127	\$7,603,175	486,127
City of Springhill	7,456,558		6,382,558	
City of Thibodaux 1-A		1,000,000		
City of Thibodaux 1-B	4,084,065	1,315,935	2,545,297	1,315,935
City of Ville Platte, 1-A		2,000,000		976,000
City of Ville Platte, 1-B	2,050,000		1,999,000	
City of Ville Platte, Loan #2	9,450,000		790,632	
City of Walker 1-A		156,000		
City of Walker 1-B	364,000		332,000	
City of Westlake	3,739,906			
City of Westlake #2A		870,000		
City of Westlake #2B	2,030,000		1,784,000	
City of Winnfield	2,500,000		1,066,579	
Colyell Community WS	948,600		608,400	
Colyell Community WS Loan 2	899,732		799,000	
Consolidated WWD #1, Terrebonne Parish	1,880,809		1,728,809	
Culbertson Water System, Inc.	598,226			
DeSoto Water District	2,350,000		1,400,000	
DeSoto Water District #1, 2-A		708,000		
DeSoto Water District #1, 2-B	1,652,000		1,520,000	
East Allen Parish Water District, 1-A	52,546	332,454		
East Allen Parish Water District, 1-B	900,000		819,239	
French Settlement	770,067		660,000	
Gardner Community Water Assoc., Inc. 1A		400,184		
Gardner Community Water Assoc., Inc. 1B	933,762		866,762	
Iberville Parish WWD#2 1A		1,906,142		
Iberville Parish WWD#2 1B	1,300,000			
Kolin-Raby Wise Water System, Inc. 1-A		165,000		
Kolin-Raby Wise Water System, Inc. 1-B	385,000		343,000	
Lafayette WWD North	2,738,586			
Mount Hermon Water District	700,000		62,402	
Natchitoches Parish WWD #2-1	3,500,000		3,150,000	
Natchitoches Parish WWD #2-2	649,276			
New Iberia -LA Water Co., Inc.	6,000,000		4,660,000	
New Iberia -LA Water Co., Inc. 2	3,500,000		2,995,000	
New Orleans Sewerage & Water Board, 1-A		1,800,000		
New Orleans Sewerage & Water Board, 1-B	1,600,000		6,511	
Point Wilhite	925,000		812,000	
Savoy Swords Water System, Inc.	907,238		743,202	
Savoy Swords Water System, Inc. 2A		261,144		
Savoy Swords Water System, Inc. 2B	609,336		564,337	

<u>Water System</u>	Authorized Loan Amount		Loans Outstanding	
	Base	ARRA	Base	ARRA
South Vernon WWD #1	\$825,000		\$431,336	
Southwest Allen Parish WWD#2, 1-A		\$298,500		
Southwest Allen Parish WWD#2, 1-B	696,500		633,500	
Town of Baldwin	1,249,627		639,000	
Town of Blanchard Loan 1A		1,000,000		
Town of Blanchard Loan 1B	2,657,000		2,335,000	
Town of Blanchard Loan 2	8,400,000		5,749,242	
Town of Blanchard Loan 3	4,930,000		66,942	
Town of Churchpoint	2,500,000			
Town of Delhi	7,500,000		6,959,000	
Town of Delhi Loan 2	1,870,000		170,510	
Town of Lutcher	1,570,000		154,148	
Town of Many #1	998,522			
Town of Many #2	1,075,320			
Town of Many #3	1,470,192			
Town of Pearl River	1,800,000		884,421	
Town of Pollock, 1-A		159,000		
Town of Pollock, 1-B	371,000			
Town of Slaughter #1	1,355,000		1,192,490	
Town of Slaughter #2	640,523		529,000	
Town of Slaughter #3				
United Water System, Inc.	\$360,333		\$308,000	
United Water System, Inc. 2-A		282,269		
United Water System, Inc. 2-B	658,626		615,626	
Village of Loreauville	1,310,000		145,895	
Village of Quitman	480,000		288,000	
Ward 2 Water District of Livingston Parish	9,000,000			
Ward 2 Water District of Livingston Parish-2	5,984,678			
Ward 2 Water District of Livingston Parish-3	4,000,000		3,657,000	
Ward 2 Water District of Livingston Parish-4	8,000,000		1,876,696	
West Winnsboro	648,093			
West Winnsboro #2	467,460		383,460	
Subtotal	<u>\$226,198,443</u>	<u>27,311,000</u>	<u>\$118,968,575</u>	<u>\$7,114,188</u>
Total		<u>\$253,509,443</u>		<u>\$126,082,763</u>

The DWRLF has been awarded 16 federal grants from the EPA. These grants are available through the EPA's Automated Clearing House Payment System and the Automated Standard Application for Payments System. Fifteen grants are authorized by the Safe Drinking Water Act Amendments of 1996 and require matching funds from the state. One grant is funded under the ARRA and requires no matching funds from the state. As of June 30, 2013, the EPA has awarded grants of \$229,594,700 to the state of which \$206,399,886 has been drawn,

\$182,882,913 for loans and \$23,516,973 for set-aside activities. The state has provided matching funds through the year ended June 30, 2013, of \$35,653,049. The following summarizes the grants awarded, amounts drawn of each grant as of the balance sheet date, and balances available for future loans and set-aside expenses:

<u>Grant Source</u>	<u>Grant Amount</u>	<u>Cumulative Dollar Draws Set-Asides</u>	<u>Cumulative Dollar Draws Loans</u>	<u>Total Cumulative Dollars Drawn as of June 30, 2013</u>	<u>Remaining Grant Dollars Available as of June 30, 2013</u>
FS996968-01-2	\$20,420,300	\$4,307,056	\$16,113,244	\$20,420,300	
FS996968-02-2	9,949,200	1,553,988	8,395,212	9,949,200	
FS996968-03-0	10,427,700	1,642,927	8,784,773	10,427,700	
FS996968-04-0	10,837,400	1,070,826	9,766,574	10,837,400	
FS996968-05-0	18,934,800		18,934,800	18,934,800	
FS996968-06-0	8,004,100	1,311,487	6,692,613	8,004,100	
FS996968-07-0	8,303,100	1,470,000	6,833,100	8,303,100	
FS996968-08-0	8,285,500	1,165,000	7,120,500	8,285,500	
FS996968-09-0	11,658,600	1,511,662	10,146,938	11,658,600	
FS996968-10-0	11,659,000	236,662	11,422,338	11,659,000	
FS996968-11-0	11,540,000	2,000,000	9,540,000	11,540,000	
FS996968-12-0	11,540,000	1,900,000	9,640,000	11,540,000	
FS996968-13-0	25,649,000	2,425,000	19,947,418	22,372,418	\$3,276,582
FS996968-14-0	17,798,000	2,270,362	8,233,209	10,503,571	7,294,429
FS996968-15-0	16,962,000	337,003	4,001,194	4,338,197	12,623,803
2F-96692001-0	27,626,000	315,000	27,311,000	27,626,000	
	<u>\$229,594,700</u>	<u>\$23,516,973</u>	<u>\$182,882,913</u>	<u>\$206,399,886</u>	<u>\$23,194,814</u>

The state has provided its required matching share of federal grant awards through General Fund appropriations and the sale of revenue bonds. Cash contributions from General Fund appropriations and sales of revenue bonds have totaled \$35,653,049. Matching contributions are as follows:

	<u>Cumulative State Match as of June 30, 2012</u>	<u>2013 Contribution</u>	<u>Cumulative State Match as of June 30, 2013</u>
State cash contribution	<u>\$31,445,353</u>	<u>\$4,207,696</u>	<u>\$35,653,049</u>

## 5. SET-ASIDE EXPENSES

A portion of the federal grant amounts awarded by the EPA can be specified to fund set-aside activities as follows:

- Up to 4% to provide administrative and technical assistance
- Up to 2% to provide technical assistance to small water systems
- Up to 10% to provide state program management
- Up to 15% to provide assistance in the development and implementation of local drinking water protection initiatives and other local assistance and state programs

Set-aside expenses are summarized as follows:

	<u>2013</u>	<u>Prior Years</u>	<u>Total</u>
Administration	\$268,111	\$4,409,234	\$4,677,345
Small system technical assistance	124,402	2,010,415	2,134,817
State programs	1,585,180	12,460,666	14,045,846
Local assistance and state programs	361,792	2,281,367	2,643,159
ARRA Grant	166,590	148,410	315,000
	<u>\$2,506,075</u>	<u>\$21,310,092</u>	<u>\$23,816,167</u>
Total			

The amount of 2013 set-aside expenses of \$2,506,075 includes accruals and payables of \$299,194.

## 6. PAYABLES

The following is a summary of payables and accrued expenses at June 30, 2013:

Vendor payables	\$256,976
Payroll accrual	<u>42,218</u>
Total	<u>\$299,194</u>

## 7. LONG-TERM LIABILITIES

The following is a summary of bonds and other long-term debt transactions of the fund for the year ended June 30, 2013:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Portion Due Within One Year
Bonds payable	<u>NONE</u>	<u>\$4,250,000</u>	<u>\$4,250,000</u>	<u>NONE</u>	<u>NONE</u>

The fund is allowed by CFR 35.3550(g)(3) to issue general obligation or revenue bonds to derive the state match. Furthermore, the secretary of DHH, through a Resolution by Executive Order pursuant to R.S. 30:2011 *et seq.*, was authorized, for state matching purposes, to borrow through the issuance of the department's note to the Louisiana Public Facilities Authority (LPFA), a conduit issuer of serial bonds for the department and the state.

The serial bond issue, Louisiana Public Facilities Authority Revenue Bonds (Drinking Water Revolving Loan Fund Match Project) Series 2006, was issued during the fiscal year ending June 30, 2006, in an amount up to \$7,300,000. This Indenture of Trust was issued between the LPFA and Hancock Bank of Louisiana. This indebtedness was secured solely from the pledge of a portion of the revenues received by the department from loans made by the program (interest earned on loans receivable and interest earned on cash in state treasury).

The LPFA is a public trust and public corporation organized and existing for the benefit of the State of Louisiana. At the same time as the issuance of the serial bonds described above, a loan agreement was executed between LPFA and DHH for a total of \$7,300,000 to facilitate the payment of bond principal and interest. On August 28, 2008, an additional agreement was executed for \$5,000,000; on March 10, 2009, an additional agreement was executed for \$1,000,000; and on May 20, 2009, an additional agreement was executed for \$5,000,000; and in September 2010, an additional agreement was executed for \$10,000,000 for a total of \$28,300,000. Of the \$28,300,000, \$1,000,000 was issued during fiscal year 2006; \$1,500,000 was issued during fiscal year 2007; \$2,250,000 was issued during fiscal year 2008; \$2,250,000 was issued during fiscal year 2009; \$5,300,000 was issued during fiscal year 2010; \$6,000,000 was issued during fiscal year 2011; \$1,500,000 was issued during fiscal year 2012; and \$4,250,000 was issued during fiscal year 2013.

As of June 30, 2013, a total of \$23,746,466 was generated for matching fund purposes by the issuance of these serial bonds. Bond issue costs of \$303,534 were absorbed by bond proceeds and are, therefore, not required to be charged against the 4% administrative costs allowance in accordance with Drinking Water State Revolving Fund program guidelines. The \$4,250,000 of bonds issued in fiscal year 2013 was repaid before the end of fiscal year leaving no bonds payable at June 30, 2013.

## 8. LITIGATION AND CLAIMS

Losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by legislative appropriation. The DWRLF has no lawsuits outstanding at June 30, 2013.

## SCHEDULES

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### **SUPPLEMENTAL INFORMATION SCHEDULES As of and for the Year Ended June 30, 2013**

The Drinking Water Revolving Loan Fund is considered one fund, which is comprised of a loan element and an administrative and state match element. The U.S. Environmental Protection Agency requested information on each of these elements. The supplementary information schedules 1 through 3 provide the details requested by the U.S. Environmental Protection Agency.

**DRINKING WATER REVOLVING LOAN FUND  
DEPARTMENT OF HEALTH AND HOSPITALS,  
OFFICE OF PUBLIC HEALTH  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND**

**Schedule of Net Position, by Account, June 30, 2013**

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Current assets:			
Cash in state treasury	\$68,625,353	\$4,374,446	\$72,999,799
Receivables	9,452,799	134,254	9,587,053
Total current assets	<u>78,078,152</u>	<u>4,508,700</u>	<u>82,586,852</u>
Noncurrent assets - loans receivable	117,745,103	NONE	117,745,103
<b>Total assets</b>	<u>195,823,255</u>	<u>4,508,700</u>	<u>200,331,955</u>
<b>LIABILITIES</b>			
Current liabilities	<u>299,194</u>	NONE	<u>299,194</u>
<b>NET POSITION - unrestricted</b>	<u>\$195,524,061</u>	<u>\$4,508,700</u>	<u>\$200,032,761</u>



**DRINKING WATER REVOLVING LOAN FUND  
DEPARTMENT OF HEALTH AND HOSPITALS,  
OFFICE OF PUBLIC HEALTH  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND**

**Schedule of Revenues, Expenses, and  
Changes in Fund Net Position, by Account  
For the Fiscal Year Ended June 30, 2013**

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
<b>OPERATING REVENUES</b>			
Federal funds - set-aside programs	\$2,339,485		\$2,339,485
Federal funds - set-aside programs - American Recovery and Reinvestment Act	166,590		166,590
Interest earned on loans receivable	4,055,663		4,055,663
Interest earned on cash in state treasury	101,047	\$16,584	117,631
Administrative fees		643,306	643,306
<b>Total operating revenues</b>	<b>6,662,785</b>	<b>659,890</b>	<b>7,322,675</b>
<b>OPERATING EXPENSES</b>			
Set-aside expenses	2,339,485		2,339,485
Set-aside expenses - American Recovery and Reinvestment Act	166,590		166,590
Bond issue costs	29,604		29,604
Commitment fee	12,700		12,700
Interest expense	981		981
Principal forgiveness	4,347,445		4,347,445
Principal forgiveness - American Recovery and Reinvestment Act	1,204,826		1,204,826
<b>Total operating expenses</b>	<b>8,101,631</b>	<b>NONE</b>	<b>8,101,631</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(1,438,846)</b>	<b>659,890</b>	<b>(778,956)</b>
Capital contributions	19,141,671		19,141,671
Capital contributions - American Recovery and Reinvestment Act	3,374,485		3,374,485
<b>Total capital contributions</b>	<b>22,516,156</b>	<b>NONE</b>	<b>22,516,156</b>
<b>CHANGE IN NET POSITION</b>	<b>21,077,310</b>	<b>659,890</b>	<b>21,737,200</b>
<b>NET POSITION - BEGINNING OF YEAR</b>	<b>174,446,751</b>	<b>3,848,810</b>	<b>178,295,561</b>
<b>NET POSITION - END OF YEAR</b>	<b>\$195,524,061</b>	<b>\$4,508,700</b>	<b>\$200,032,761</b>

**DRINKING WATER REVOLVING LOAN FUND  
DEPARTMENT OF HEALTH AND HOSPITALS,  
OFFICE OF PUBLIC HEALTH  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND**

**Schedule of Cash Flows, by Account  
For the Fiscal Year Ended June 30, 2013**

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
<b>Cash flows from operating activities</b>			
Cash received from interest on loans	\$4,008,235		\$4,008,235
Cash received from interest on cash in state treasury	94,618	\$16,403	111,021
Cash received from administrative fees		632,102	632,102
Cash received from repayment of loan principal	36,134,162		36,134,162
Cash received from allocations for set-aside programs	2,589,796		2,589,796
Cash payments for set-aside expenses	(2,589,796)		(2,589,796)
Cash payments to borrowers	(27,269,581)		(27,269,581)
<b>Net cash provided by operating activities</b>	<u>12,967,434</u>	<u>648,505</u>	<u>13,615,939</u>
<b>Cash flows from noncapital financing activities</b>			
Contributed capital	19,141,671		19,141,671
Contributed capital - American Recovery and Reinvestment Act	3,374,485		3,374,485
Proceeds from issuance of bonds	4,220,396		4,220,396
Principal paid on bonds	(4,250,000)		(4,250,000)
Interest expense	(981)		(981)
Commitment fee	(12,700)		(12,700)
<b>Net cash provided by noncapital financing activities</b>	<u>22,472,871</u>	<u>NONE</u>	<u>22,472,871</u>
<b>Net increase in cash</b>	35,440,305	648,505	36,088,810
<b>Cash at beginning of the year</b>	<u>33,185,048</u>	<u>3,725,941</u>	<u>36,910,989</u>
<b>Cash at end of the year</b>	<u>\$68,625,353</u>	<u>\$4,374,446</u>	<u>\$72,999,799</u>

(Continued)

**DRINKING WATER REVOLVING LOAN FUND  
DEPARTMENT OF HEALTH AND HOSPITALS,  
OFFICE OF PUBLIC HEALTH  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND  
Schedule of Cash Flows, by Account, 2013**

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	(\$1,438,846)	\$659,890	(\$778,956)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Bond issue costs	29,604		29,604
Interest expense	981		981
Commitment fee	12,700		12,700
Changes in assets and liabilities:			
(Increase) Decrease in accounts receivable	36,294	(11,204)	25,090
(Increase) in due from others	(6,429)	(181)	(6,610)
Decrease in loans receivable	14,416,852		14,416,852
(Decrease) in accounts payable and accrued expenses	(83,722)		(83,722)
<b>Net cash provided by operating activities</b>	<u>\$12,967,434</u>	<u>\$648,505</u>	<u>\$13,615,939</u>
<b>Noncash investing, capital, and financing activities:</b>			
Principal forgiveness on loans	\$4,347,445		\$4,347,445
Principal forgiveness on loans - American Recovery and Reinvestment Act	\$1,204,826		\$1,204,826

(Concluded)

**OTHER REPORTS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS AND THE  
ENVIRONMENTAL PROTECTION AGENCY AUDIT GUIDE  
FOR CLEAN WATER AND DRINKING WATER  
STATE REVOLVING FUND PROGRAMS**

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**Exhibits A-B**

The following pages contain reports on internal control over financial reporting and on compliance with laws and regulations and other matters required by *Government Auditing Standards*, issued by the Comptroller General of the United States, and on internal control and compliance with requirements applicable to the Capitalization Grants for Drinking Water Revolving Funds Program in accordance with the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*.



LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

March 20, 2014

Report on Internal Control  
Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

**DRINKING WATER REVOLVING LOAN FUND**  
**DEPARTMENT OF HEALTH AND HOSPITALS,**  
**OFFICE OF PUBLIC HEALTH**  
**STATE OF LOUISIANA**  
New Orleans, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water State Revolving Loan Fund, an enterprise fund of the state of Louisiana, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the fund's basic financial statements, and have issued our report dated March 20, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water Revolving Loan 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 Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water Revolving Loan Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Drinking Water Revolving Loan Fund's internal control.

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

prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the fund'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 charge 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 Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water State Revolving Loan Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Health and Hospitals, Office of Public Health - Drinking Water State Revolving Loan Fund's internal control and compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

KAW:WG:EFS:THC:ch

DWRLF 2013



LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

March 20, 2014

Report on Compliance with Requirements Applicable  
to the Capitalization Grants for Drinking Water State Revolving Funds  
Program and on Internal Control Over Compliance in Accordance With the  
*Environmental Protection Agency Audit Guide for  
Clean Water and Drinking Water State Revolving Fund Programs*

Independent Auditor's Report

**DRINKING WATER REVOLVING LOAN FUND  
DEPARTMENT OF HEALTH AND HOSPITALS,  
OFFICE OF PUBLIC HEALTH  
STATE OF LOUISIANA  
New Orleans, Louisiana**

**Report on Compliance for the Capitalization Grants  
for the Drinking Water State Revolving Loan Funds Program**

We have audited the compliance of the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water State Revolving Loan Fund with the types of compliance requirements that are applicable to the Capitalization Grants for the Drinking Water State Revolving Funds Program (CFDA 66.468) for the year ended June 30, 2013, as specified by the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to this federal program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water Revolving Loan Fund's federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United State of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Capitalization Grants for the Drinking Water State Revolving Loan Funds Program occurred. An audit includes examining, on a test basis, evidence about the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water Revolving Loan Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Capitalization Grants for the Drinking Water State Revolving Loan Funds Program.

### **Opinion**

In our opinion, the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water Revolving Loan Fund complied, in all material respects, with the compliance requirements referred to above that are applicable to its Capitalization Grants for Drinking Water State Revolving Funds Program for the year ended June 30, 2013.

### **Report on Internal Control over Compliance**

Management of the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water Revolving Loan Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water Revolving Loan Fund's internal control over compliance with the types of requirements that could have a direct and material effect on its Capitalization Grants for the Drinking Water State Revolving Loan Funds Program (CFDA 66.468), to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water Revolving Loan Fund's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a



combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Daryl G. Purpera".

Daryl G. Purpera, CPA, CFE  
Legislative Auditor

KAW:WDG:EFS:THC:ch

DWRLF 2013