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**Clean Water  
State Revolving Fund**

*Financial Statements*

**June 30, 2017**

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# Clean Water State Revolving Fund

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## **Independent Auditor's Report**

Clean Water State Revolving Fund  
Louisiana Department of Environmental Quality  
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Clean Water State Revolving Fund, an enterprise fund of the State of Louisiana, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the entity's 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 respective financial position of Clean Water State Revolving Fund as of June 30, 2017, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Clean Water State Revolving Fund. The accompanying schedule of expenditures of federal awards at page 24 is presented for purposes of additional analysis and is not a required part of the financial statements.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2018, on our consideration of the Clean Water State Revolving Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clean Water State Revolving Fund's internal control over financial reporting and compliance.



Covington, Louisiana  
January 26, 2018

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*Management's Discussion and Analysis*

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# Clean Water State Revolving Fund Management's Discussion and Analysis

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## Introduction

The following Management's Discussion and Analysis (the "MD&A") is a required supplement to the Clean Water State Revolving Fund's ("CWSRF") financial statements. This section is designed to assist the reader in focusing on significant financial issues, provide an overview of CWSRF's financial activity, identify changes in CWSRF's financial position (its ability to address the next and subsequent year challenges), and identify individual program issues or concerns.

As with other sections of this financial report, the information contained within this MD&A should be considered only a part of a greater whole. The readers of this statement should take time to read and evaluate all sections of this report, including the footnotes and the other supplementary information that is provided in addition to the MD&A.

## Financial Highlights

- The primary sources of funding for CWSRF's activities is capital contributions from the U.S. Environmental Protection Agency ("EPA") and interest and administrative fees charged against loans receivable.
- For the year ended June 30, 2017, capital contributions decreased by \$2,184,132 to \$12,332,297 as compared to capital contributions totaling \$14,516,429 for the year ended June 30, 2016. Capital contributions decreased as a result of a decrease in capital available from EPA capitalization grants for loan disbursements.
- Cash and cash equivalents decreased by \$41.99 million in 2017. The variance is primarily due to the disbursements of new loans exceeding the amount of principal payments and fees received from outstanding loans.
- Loans receivable balance at June 30, 2017 and 2016 was \$323.24 million and \$268.91 million, respectively – an increase of \$54.33 million. The variance is due to an increase in new loans being disbursed to local governments and agencies.
- No debt was acquired during the current fiscal year.

## Overview of Financial Statements

This MD&A is an introduction to CWSRF's financial statements and accompanying notes to financial statements. This report also contains required supplementary information and other supplementary information.

The financial statements of CWSRF are presented as a special purpose government engaged only in business type activities - providing loans to other governmental entities. The statements provide both short-term and long-term information about CWSRF's financial position, which assists the reader in assessing CWSRF's economic condition at the end of the fiscal year. These statements are prepared using the accrual basis of accounting. The financial statements include the following:

# Clean Water State Revolving Fund

## Management's Discussion and Analysis

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### *Statement of Net Position*

The statement of net position presents information on all of CWSRF's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position are expected to serve as a useful indicator of whether the financial position of CWSRF is improving or deteriorating.

### *Statement of Revenues, Expenses, and Changes in Net Position*

The statement of revenues, expenses, and changes in net position present information which reflects how CWSRF's net position changed during the past year. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

### *Statement of Cash Flows*

The statement of cash flows presents information showing how CWSRF's cash changed as a result of current year's operating activities, noncapital financing activities, and investing activities. The statement of cash flows is prepared using the direct method and includes the reconciliation of operating income to net cash provided by or used in operating activities (indirect method) as required by GASB 34.

### *Notes to Financial Statements*

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes can be found immediately following the financial statements.

## Financial Analysis

### *Net Position*

CWSRF's condensed combined statements of net position consist of the following at June 30:

	<u>2017</u>	<u>2016</u>	<u>Variance</u>	<u>% Variance</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 257,611,785	\$ 299,601,404	\$ (41,989,619)	-14.02%
Loans receivable	323,244,610	268,913,176	54,331,434	20.20%
All other assets	1,055,565	745,985	309,580	41.50%
	<u>\$ 581,911,960</u>	<u>\$ 569,260,565</u>	<u>\$ 12,651,395</u>	2.22%
<b>LIABILITIES AND NET POSITION</b>				
<b>Liabilities</b>				
Current liabilities	\$ 30,404	\$ 18,997	\$ 11,407	60.05%
<b>Net Position</b>				
Unrestricted	<u>581,881,556</u>	<u>569,241,568</u>	<u>12,639,988</u>	2.22%
	<u>\$ 581,911,960</u>	<u>\$ 569,260,565</u>	<u>\$ 12,651,395</u>	2.22%

# Clean Water State Revolving Fund

## Management's Discussion and Analysis

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The \$12.64 million increase in net position reflects the continued strong growth of CWSRF. Cash and cash equivalents decreased by \$41.99 million due to the disbursement of new loans to local governments and agencies exceeding principal payments and fees received on outstanding loans.

For the year ended June 30, 2017, CWSRF collected \$17.91 million on loans receivable and issued new loans totaling \$72.25 million. For the year ended June 30, 2016, CWSRF collected \$20.08 million on loans receivable and issued new loans totaling \$70.06 million.

### *Revenues, Expenses, and Changes in Net Position*

CWSRF's condensed combined statements of revenues, expenses, and changes in net position consist of the following at June 30:

	2017	2016	Variance	% Variance
Operating revenues	\$ 3,687,767	\$ 3,326,795	\$ 360,972	10.85%
Operating expenses	1,009,984	1,064,560	(54,576)	-5.13%
Operating income	<u>2,677,783</u>	<u>2,262,235</u>	<u>415,548</u>	18.37%
Other revenues	14,590,981	17,907,727	(3,316,746)	-18.52%
Other expenses	4,628,776	6,578,569	(1,949,793)	-29.64%
	<u>9,962,205</u>	<u>11,329,158</u>	<u>(1,366,953)</u>	-12.07%
<b>Change in net position</b>	12,639,988	13,591,393	(951,405)	-7.00%
Net position, beginning of year	<u>569,241,568</u>	<u>555,650,175</u>	<u>13,591,393</u>	2.45%
<b>Net position, end of year</b>	<u>\$ 581,881,556</u>	<u>\$ 569,241,568</u>	<u>\$ 12,639,988</u>	2.22%

CWSRF's operating revenues are earned from interest and fees calculated on the balance of loans receivable outstanding and program administrative fees paid by the EPA.

Other revenues consist of EPA capitalization grants and interest earned on cash held by the State of Louisiana's treasury. The \$3.32 million increase is the direct result of a decrease in capital available from EPA capitalization grants.

Other expenses consist of the forgiveness of loan principal, bond issuance costs, and financial support transferred to the Louisiana Department of Environmental Quality. CWSRF received principal forgiveness funds from EPA capitalization grants of \$674,075 and \$2,786,791 for the years ended June 30, 2017 and 2016, respectively. The loans made with these funds were forgiven as disbursed and must be repaid if certain loan conditions are not met.

# Clean Water State Revolving Fund Management's Discussion and Analysis

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## Budgetary Information

Under the Louisiana constitution, money may only be drawn from the treasury through the Ancillary Appropriations Act. The Louisiana Legislature authorized expenditures of \$95 million for the year ended June 30, 2017 and \$85 million for the year ended June 30, 2016. There was one budget amendments for the year ended June 30, 2017. Funds can only be used for limited purposes; therefore, CWSRF can retain resources to fund future loans and eligible program activities.

## Debt Administration

CWSRF is allowed by statute to incur indebtedness but not allowed to issue bonds directly. To provide state matching funds when direct cash appropriations were not available, Louisiana Department of Environmental Quality ("DEQ") received approval from the EPA to borrow matching funds by using the interest portion of the revenues received. The secretary of DEQ, through a Resolution by Executive Order pursuant to R.S. 30:2301 *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.

CWSRF had no outstanding debt at June 30, 2017 and 2016. Additional information on CWSRF's long-term obligations can be found in Note 4 to the financial statements.

## Economic Conditions and Outlook

In 2017, CWSRF program revenues continued to support new loan financing activity and administrative expenses. The total amount of new loan commitments increased in 2017 due primarily from the amount of new loans issued exceeding the amount of loan repayments. CWSRF programs continued to improve its procedures in 2017 to provide attractive and efficient financing for publicly owned treatment works projects, and continues to evaluate its financing terms so it can be an attractive choice compared to other market options.

As a result of slowly improving economic conditions, the frequency of local entities experiencing strained revenue flows has diminished. To ensure that loans are repaid on time and in full, CWSRF uses a variety of analysis and surveillance measures to reduce the possibility of nonpayment. CWSRF has worked closely with loan recipients with strained revenues to ensure dedicated sources of revenue are sufficient, and when necessary has restructured loans in consideration of available short term cash flows. By diligently working with loan recipients, CWSRF anticipates full repayment of all loans.

Although reduced capitalization funds from EPA affect cash flows, CWSRF has significant equity from loan receivables that can be used to provide funds for new loans if needed. CWSRF personnel continues to monitor the demand for new loans, and will work with its financial advisors on a revenue bond sale to meet required cash flows when needed.

# **Clean Water State Revolving Fund Management's Discussion and Analysis**

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CWSRF's elected and appointed officials considered the following factors and indicators when setting next year's budget, rates, and fees:

- Projects on the priority list that will close in the budget year
- 10 year Cash Flow Model prepared by our financial advisors
- Current and expected market rates

CWSRF expects that next year's results will improve based on the following:

- Closing several larger loans in the 2018 fiscal year
- Continue to provide a 0.95% interest rate which is lower than market rates

## **Contacting Clean Water State Revolving Fund Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of CWSRF's finances and to show CWSRF's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sierra Trabeau at P.O. Box 4303 - Baton Rouge, Louisiana 70821.

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*Financial Statements*

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**Clean Water State Revolving Fund**  
**Statement of Net Position**  
**June 30, 2017**

	Loan Program Fund	Administration Fund	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 248,863,992	\$ 8,747,793	\$ 257,611,785
Loan interest receivable	405,168	-	405,168
Loan fees receivable	-	406,570	406,570
Interest due from state treasury	163,726	6,224	169,950
Due from Louisiana Department of Environmental Quality	73,789	-	73,789
Due from other funds	-	88	88
Loans receivable - current portion	23,570,511	-	23,570,511
	<u>273,077,186</u>	<u>9,160,675</u>	<u>282,237,861</u>
<b>Noncurrent Assets</b>			
Loans receivable	299,674,099	-	299,674,099
	<u>\$ 572,751,285</u>	<u>\$ 9,160,675</u>	<u>\$ 581,911,960</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ -	\$ 30,316	\$ 30,316
Due to other funds	88	-	88
	<u>88</u>	<u>30,316</u>	<u>30,404</u>
<b>Net Position</b>			
Unrestricted	572,751,197	9,130,359	581,881,556
	<u>\$ 572,751,285</u>	<u>\$ 9,160,675</u>	<u>\$ 581,911,960</u>

*See accompanying notes to financial statements.*

**Clean Water State Revolving Fund**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended June 30, 2017**

	Loan Program Fund	Administration Fund	Total
<b>Operating Revenues</b>			
Interest earned on loans receivable	\$ 1,509,301	\$ -	\$ 1,509,301
Administrative fees from loans receivable	-	1,492,523	1,492,523
Program administration fees from Environmental Protection Agency	685,943	-	685,943
	<u>2,195,244</u>	<u>1,492,523</u>	<u>3,687,767</u>
<b>Operating Expenses</b>			
Salaries and related expenses	477,809	-	477,809
Operating expenses and supplies	6,542	186,819	193,361
Administrative expenses	338,814	-	338,814
	<u>823,165</u>	<u>186,819</u>	<u>1,009,984</u>
Operating income	<u>1,372,079</u>	<u>1,305,704</u>	<u>2,677,783</u>
<b>Non-Operating Revenues (Expenses)</b>			
Environmental Protection Agency capitalization grant - principal forgiveness	674,075	-	674,075
Principal forgiveness	(674,075)	(82,715)	(756,790)
Interest earned on cash in state treasury	1,524,240	60,369	1,584,609
Bond issuance costs, interest, and fees	(11,150)	-	(11,150)
	<u>1,513,090</u>	<u>(22,346)</u>	<u>1,490,744</u>
Income before other revenues and expenses	<u>2,885,169</u>	<u>1,283,358</u>	<u>4,168,527</u>
<b>Capital Contributions</b>			
Environmental Protection Agency capitalization grant	12,332,297	-	12,332,297
<b>Other Revenues (Expenses)</b>			
Support transferred to Louisiana Department of Environmental Quality	-	(3,860,836)	(3,860,836)
Transfers in (out)	87,904	(87,904)	-
	<u>87,904</u>	<u>(3,948,740)</u>	<u>(3,860,836)</u>
<b>Increase(decrease) in net position</b>	<u>15,305,370</u>	<u>(2,665,382)</u>	<u>12,639,988</u>
Net position, beginning of year	<u>557,445,827</u>	<u>11,795,741</u>	<u>569,241,568</u>
<b>Net position, end of year</b>	<u>\$ 572,751,197</u>	<u>\$ 9,130,359</u>	<u>\$ 581,881,556</u>

*See accompanying notes to financial statements.*

**Clean Water State Revolving Fund**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2017**

	Loan Program Fund	Administration Fund	Total
<b>Cash Flows From Operating Activities</b>			
Loan principal received from borrowers	\$ 17,914,233	\$ -	\$ 17,914,233
Loans disbursed	(72,245,667)	-	(72,245,667)
Loan interest received from borrowers	1,435,048	-	1,435,048
Loan administration fees received from borrowers	-	1,400,703	1,400,703
Program administration fees from Environmental Protection Agency	686,455	-	686,455
Payments to employees	(477,809)	-	(477,809)
Payments to vendors	(420,666)	(157,436)	(578,102)
Net cash provided by (used in) operating activities	<u>(53,108,406)</u>	<u>1,243,267</u>	<u>(51,865,139)</u>
<b>Cash Flows From Noncapital Financing Activities</b>			
Support transferred to Louisiana Department of Environmental Quality	-	(3,876,960)	(3,876,960)
Transfers from(to) other funds	87,992	(87,992)	-
Net cash provided by (used in) noncapital financing activities	<u>87,992</u>	<u>(3,964,952)</u>	<u>(3,876,960)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Environmental Protection Agency capitalization grant	13,006,372	-	13,006,372
Principal forgiveness	(674,075)	(82,715)	(756,790)
Proceeds from sale of bonds	2,988,850	-	2,988,850
Principal paid on bonds	(3,000,000)	-	(3,000,000)
Net cash provided by (used in) capital financing activities	<u>12,321,147</u>	<u>(82,715)</u>	<u>12,238,432</u>
<b>Cash Flows From Investing Activities</b>			
Interest earned on cash in state treasury	<u>1,455,936</u>	<u>58,112</u>	<u>1,514,048</u>
Net cash provided by investing activities	<u>1,455,936</u>	<u>58,112</u>	<u>1,514,048</u>
<b>Change in cash and cash equivalents</b>	<b>(39,243,331)</b>	<b>(2,746,288)</b>	<b>(41,989,619)</b>
Cash and cash equivalents - beginning of year	<u>288,107,323</u>	<u>11,494,081</u>	<u>299,601,404</u>
<b>Cash and cash equivalents - end of year</b>	<b><u>\$ 248,863,992</u></b>	<b><u>\$ 8,747,793</u></b>	<b><u>\$ 257,611,785</u></b>

*See accompanying notes to financial statements.*

**Clean Water State Revolving Fund**  
**Statement of Cash Flows (Continued)**  
**For the Year Ended June 30, 2017**

	Loan Program Fund	Administration Fund	Total
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>			
Operating income	\$ 1,372,079	\$ 1,305,704	\$ 2,677,783
Adjustments to reconcile operating income to net cash provided by operating activities:			
(Increase) decrease in:			
Loans receivable	(54,331,434)	(91,820)	(54,423,254)
Loan interest receivable	(74,253)	-	(74,253)
Due from Environmental Protection Agency	512	-	512
Due from Louisiana Department of Environmental Quality	(73,370)	-	(73,370)
Increase (decrease) in:			
Accounts payable	(823)	29,383	28,560
Due to Louisiana Department of Environmental Quality	(1,117)	-	(1,117)
	<u>\$ (53,108,406)</u>	<u>\$ 1,243,267</u>	<u>\$ (51,865,139)</u>

*See accompanying notes to financial statements.*

# Clean Water State Revolving Fund

## Notes to Financial Statements

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### 1. History and Summary of Significant Accounting Policies

#### *Nature of Operations*

Clean Water State Revolving Fund (“CWSRF”) was established pursuant to Title VI of the Clean Water Act, as amended in 1987 (the Act). CWSRF presently operates under R.S. 30:2301-2306 (Act 296 of the 2010 Regular Session of the Louisiana Legislature). These statutes establish a state revolving loan fund capitalized by federal grants (Capitalization Grants for Clean Water State Revolving Funds, CFDA 66.458), by state funds when required or available, and by any other funds generated by the operation of the clean water revolving loan fund.

The Louisiana Department of Environmental Quality (“DEQ”) is authorized to engage in activities regarding the sums on deposit in, credited to, or to be received by the state revolving loan fund. DEQ is a department of the State of Louisiana and was created in accordance with Louisiana Revised Statute (R.S.) 30:2011 as a part of the executive branch of government to oversee environmental protection within the State of Louisiana.

The Financial Services Division and Business and Community Outreach Division within DEQ are responsible for the operations of CWSRF in the State of Louisiana. These divisions within DEQ provide assistance to municipalities in developing, financing, and implementing wastewater treatment management plans and plants. Engineering oversight, design review, and inspection services as well as environmental assessment services are provided by the Business and Community Outreach Division and grant management, program administration, and financial services are provided by the Financial Services Division on eligible wastewater treatment projects. All efforts are directed toward improving water quality by assisting communities in providing wastewater treatment processes that meet established effluent limits and achieve the goals of the Clean Water Act.

#### *Personnel*

Personnel of DEQ administers CWSRF since CWSRF does not have any full-time employees. Time spent administering CWSRF by DEQ personnel is captured, and CWSRF subsequently reimburses DEQ. The charges include the salaries and benefits of the personnel, as well as indirect costs allocated to CWSRF based on direct salary costs. Personnel charging time to CWSRF are covered by the benefits available to employees of the State of Louisiana. CWSRF is also charged indirect costs through the cost allocation plan for general state expenses.

#### *Reporting Entity*

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61 (GASB 61), “*The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and 34.*” This pronouncement revises the requirements for determining if a component unit is included in the financial reporting entity of its primary government.

Organizations are required to have a financial benefit/burden relationship with the primary government for it to be included in the reporting entity as a component unit. Based on this criteria, CWSRF is reported as a component unit of the State of Louisiana. The activities of CWSRF are included in the State of Louisiana's Comprehensive Annual Financial Report as an enterprise fund using the accrual basis of accounting. The State of Louisiana's Comprehensive Annual Financial Report is audited by the Louisiana Legislative Auditor and is available at the website of the Office of Statewide Reporting and Accounting Policy.

# Clean Water State Revolving Fund

## Notes to Financial Statements

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### ***Financial Statement Presentation***

The GASB has been established to promulgate generally accepted accounting principles and reporting standards with respect to activities and transactions of state and local governmental entities. The GASB has issued a Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). This codification and subsequent GASB pronouncements are recognized as generally accepted accounting principles for state and local governments. The accompanying financial statements have been prepared in accordance with such principles.

Private Sector Standards of Accounting issued on or prior to November 30, 1989 generally are followed in the financial statements to the extent those statements do not conflict or contradict the standards of the GASB. CWSRF has applied GASB No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which eliminates the option for business-type activities to follow new FASB pronouncements, although they may continue to be applied as “other accounting literature.”

### ***Fund Accounting***

For financial reporting purposes, CWSRF is treated as a special-purpose government engaged only in business-type activities. All activities of CWSRF are accounted for within a proprietary (enterprise) fund to report on its financial position, results of operations, and cash flows. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

### ***Net Position***

CWSRF has implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective fiscal year 2013. This standard provides guidance for reporting the financial statement elements of deferred outflows of resources and deferred inflows of resources. Deferred outflows represent the consumption of the government's resources that are applicable to a future reporting period. A deferred inflow represents the acquisition of resources that are applicable to a future reporting period. Because deferred outflows and deferred inflows are, by definition, neither assets nor liabilities, the statement of net assets title is now referred to as the statement of net position. The statement of net position reports net position as the difference between all other elements in a statement of net position and is displayed in the three following components:

- Net Investment in Capital Assets - Consists of capital assets including restricted capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted - Consists of amounts with constraints placed on the use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted - All other amounts that do not meet the definition of "restricted" or "net investment in capital assets." All of CWSRF's resources are unrestricted.

All of CWSRF's resources are unrestricted. When both restricted and unrestricted resources are available for use, it is CWSRF's policy to use the restricted resources first, then unrestricted resources as needed.

# Clean Water State Revolving Fund

## Notes to Financial Statements

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### ***Basis of Accounting***

Basis of accounting refers to the timing of recognition of revenues and expenses in the accounts and reporting in the financial statements, regardless of the measurement focus applied. The transactions of CWSRF are accounted for using the accrual basis of accounting and on a flow of economic resources measurement focus where the aim is to report all inflows, outflows, and balances affecting or reflecting an entity's net position. Accordingly, revenues are recognized in the accounting period when they are earned and expenses are recognized when the related liability is incurred.

### ***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes during the reporting period. Actual results could differ from those estimates.

### ***Budgets and Budgetary Accounting***

CWSRF is budgeted annually by the Louisiana Legislature through the Ancillary Appropriations Act. The Ancillary Appropriations Act (Act 43 of the 2012 Regular Session as amended) authorized expenditures of \$95,000,000 for the loan program for the 2017 fiscal year and allows CWSRF to retain resources to fund future loans and eligible program activities. Because CWSRF is an enterprise fund, a budgetary comparison is neither required nor presented in the financial statements.

### ***Cash and Cash Equivalents***

The statement of cash flows considers all funds deposited with the Louisiana Department of Treasury to be cash and cash equivalents, regardless of actual maturities.

### ***Loans Receivable***

CWSRF is operated as a direct loan program. The program provides loans and other financial assistance to municipalities for the purpose of planning, constructing publicly owned treatment works, implementing nonpoint source pollution management programs, and developing and implementing estuary conservation and management plans.

The program lends federal and state monies directly to municipalities. 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%. The federal share is received through grants made by the Environmental Protection Agency (the "EPA"). Recycling of principal and interest repayments from borrowing municipalities allows the program to operate in perpetuity thereby benefiting other municipalities 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 municipalities. Interest earnings on cash deposits and program loans can be used to make additional loans. In addition, with EPA approval, interest earnings on cash deposits and program loans are used to pay off revenue bonds sold to capitalize the program by providing state matching funds.

# Clean Water State Revolving Fund

## Notes to Financial Statements

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Loans made by CWSRF must be made at or below market interest rate with a repayment period not exceeding 20 years plus an interim construction-financing period. A variable rate based on the Baa 20-year bond rate listed in the “Bond Buyer Index” one week prior to loan closing was introduced during fiscal year 2005. The 0.5% administrative fee was added to this rate to determine the total rate charged. The rate was adjusted annually in accordance with the rates forecast by the “Index” at the closing date. This rate allowed a lower rate during the early construction years and has been used on all loans closed beginning with fiscal year 2005 until October 11, 2006, when the rate of 2.95% was implemented.

In an effort to increase borrowing from CWSRF, DEQ reduced its current interest rate from 2.95% to 0.95%, which is 0.45% interest plus 0.5% administrative fee charged only on loan monies drawn. The interest rate was set by the secretary of the department on January 27, 2009, and the interest rate on loans made by CWSRF for water quality improvement projects may be adjusted in accordance with current market rate and availability of funds.

As evidence of its obligations to pay principal and interest on the loans, each borrower must establish a dedicated source of revenue for repayment of the loan [33 USC 1383(d)(1)(C)]. For substantially all of these loans, the loan recipient issues bonds that are purchased by DEQ, as administrator of CWSRF, to secure the repayment of the principal loaned. Principal and interest on the bonds are paid to CWSRF 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:

- 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).
- 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).
- 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. CWSRF 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.
- 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.

# Clean Water State Revolving Fund

## Notes to Financial Statements

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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.

Loans funded by principal forgiveness grants are advanced to local agencies on a cost reimbursement basis and forgiven as each disbursement occurs. Loan agreements require repayment of the forgiven loan if all program requirements are not met.

### *Allowance for Bad Debts*

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

### *Revenue Bond Issue Costs and Original Issue Premium*

In accordance with GASB 65, revenue bond issue costs are expensed when incurred. Revenue bond original issue premium is to be amortized over the term of the bonds using the effective interest method.

### *Operating Revenues and Expenses*

CWSRF distinguishes between operating revenues and expenses and non-operating items in the statement of revenues, expenses and changes in net position. Operating revenues and expenses generally result from carrying out the purpose of CWSRF of providing low interest loans to communities and providing assistance for prevention programs and administration.

Operating revenues consist of interest and administrative fees earned from loans receivable and program administrative fees earned from the EPA. Operating expenses include direct salary costs and benefits expenses and allocated indirect costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions.

In accordance with generally accepted accounting principles, monies received from the EPA and the State of Louisiana as matching funds are recorded as capital contributions, except for principal forgiveness which is reported as non-operating.

### *Compensated Absences and Employee Benefits*

CWSRF has no full-time employees. CWSRF pays a portion of the salary of various employees of DEQ for administrative services. Therefore, no compensated absences, pension benefits, or postretirement benefits are provided by CWSRF.

# Clean Water State Revolving Fund

## Notes to Financial Statements

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### 2. Deposits

All monies of CWSRF are deposited with the Louisiana Department of Treasury, which is responsible for maintaining these deposits in accordance with Louisiana State Law. Consequently, management of CWSRF does not have any control over the cash balances. Deposits consist of the following at June 30, 2017:

Deposits per statement of net position (reconciled bank balance)	<u>\$ 257,611,785</u>
Deposits held by Louisiana Treasury	<u>\$ 257,610,368</u>
Category 3 bank balances:	
a. Uninsured and uncollateralized	\$ -
b. Uninsured and collateralized with securities held by the pledging institution	-
c. Uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the Foundation's name	-
Total category 3 bank balances	<u>\$ -</u>

The Louisiana Department of Treasury is responsible for maintaining the cash balances and securing such balances from risk through custodial agreements. The risk disclosures required by accounting principles generally accepted in the United States are included with the State of Louisiana's Comprehensive Annual Financial Report.

Interest earnings on cash deposits held by the Louisiana Department of Treasury are received monthly and classified as non-operating revenue when earned.

### 3. Loans Receivable

CWSRF makes loans to qualified political subdivisions of the State of Louisiana for projects that meet the eligibility requirements of the program. Loans are financed by capitalization grants, state match, and revolving funds. Effective interest rates on loans vary between 0.95% and 4.95%, including .50% administration fee, and are generally repaid over 20 years starting within one year after the project is completed.

# Clean Water State Revolving Fund

## Notes to Financial Statements

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The following schedule provides details of loans receivable at June 30, 2017:

Completed projects	\$ 120,844,255
Projects in progress	202,400,355
	<u>323,244,610</u>
Current portion of loans receivable	(23,570,511)
	<u>\$ 299,674,099</u>

The scheduled principal payments on loans maturing in subsequent years are as follows:

For the Year Ending June 30:	Projects in Progress	Completed Projects	Total
2018	14,770,511	\$ 8,800,000	\$ 23,570,511
2019	14,537,496	7,571,000	22,108,496
2020	14,559,453	7,559,000	22,118,453
2021	14,460,959	7,630,000	22,090,959
2022	14,392,828	8,222,000	22,614,828
Thereafter	129,679,108	81,062,255	210,741,363
	<u>\$ 202,400,355</u>	<u>\$ 120,844,255</u>	<u>\$ 323,244,610</u>

### ***Encumbered Balances***

Approximately 67.73% of cash and undrawn capitalization grants are encumbered as follows:

Cash and cash equivalents - loan program fund	\$ 257,611,785
Undrawn capitalization grants	3,674,293
Total cash and undrawn grants	<u>\$ 261,286,078</u>
Loans in progress - encumbered	\$ 176,966,077
Loans as a percentage of total	67.73%

The ‘loans in progress – encumbered’ represent projects that are under construction and have only drawn a portion of the total approved loan amount. This figure consists of the total approved principal less the principal loaned to date.

# Clean Water State Revolving Fund

## Notes to Financial Statements

### *Concentrations*

CWSRF has 85 loans due from 62 different local governments and agencies at June 30, 2017. The outstanding loan balances for each of the local governments listed in the following schedule exceeds 5 percent of total loans receivable.

Borrower	Authorized Loan Amount	Outstanding Loan Balance	Percentage of Total Loans Receivable
Bossier City	\$ 42,000,000	\$ 28,792,827	8.91%
Bossier Parish Sewer District No. 1	27,750,000	25,011,992	7.74%
East Baton Rouge Sewerage Commission	88,300,000	37,657,488	11.65%
Jefferson Parish	35,250,000	24,795,756	7.67%
Kenner	58,000,000	35,777,726	11.07%
Lake Charles	21,000,000	17,558,182	5.43%
	\$ 272,300,000	\$ 169,593,971	

#### **4. Long-Term Obligations**

CWSRF is allowed by statute to incur indebtedness but not allowed to issue bonds directly. To provide state matching funds when direct cash appropriations were not available, DEQ received approval from the EPA to borrow matching funds by using the interest portion of the revenues received. The secretary of DEQ, through a Resolution by Executive Order pursuant to R.S. 30:2301 *et seq.* was authorized, for state matching purposes, to borrow through the issuance of the DEQ's note to the Louisiana Public Facilities Authority (LPFA), a conduit issuer of serial bonds for the department and the state.

##### ***Series 1995 Revenue Bonds***

The first serial bond issue was called Louisiana Public Facilities Authority Taxable Revenue Bonds (MFRLF Match Project) Series 1995. This indebtedness was secured solely from the pledge of the interest portion of the revenues received by CWSRF from loans made by the program. The Louisiana Public Facilities Authority (the "LPFA") is a public trust and public corporation organized and existing for the benefit of the State of Louisiana. In accordance with the \$15,000,000 Loan Agreement between the LPFA and the DEQ and in accordance with the \$15,000,000 Indenture of Trust between the LPFA and First National Bank of Commerce, the trustee, the LPFA issued serial bonds for \$15,000,000 and was repaid the \$15,000,000 by June 30, 1999. A total of \$14,654,221 had been generated for matching fund purposes by the issuance of these serial bonds.

##### ***Series 2001 Revenue Bonds***

The second serial bond titled Louisiana Public Facilities Authority Revenue Bonds (MFRLF Match Project) Series 2001 was issued during the fiscal year ending June 30, 2002. This indebtedness was secured solely from the pledge of the interest portion of the revenues received by CWSRF from loans made by the program. The Loan Agreement between the LPFA and DEQ was for a total of \$12,000,000 of which all funds were issued and repaid by June 30, 2006. A total of \$11,757,295 was generated for matching fund purposes by the issuance of these serial bonds.

# Clean Water State Revolving Fund

## Notes to Financial Statements

### *Series 2007 Revenue Bonds*

The third serial bond was called Louisiana Public Facilities Authority Revenue Bonds (MFRLF Match Project) Series 2007 and was issued during the fiscal year ending June 30, 2007. This indebtedness was secured solely from the pledge of the interest portion of the revenues received by CWSRF from loans issued. The Loan Agreement between the LPFA and DEQ was for a total of \$10,000,000 of which \$4,000,000 was issued during the year ended June 30, 2007. The \$10,000,000 Indenture of Trust was issued between the LPFA and Hancock Bank of Louisiana and amended to \$20,000,000 on May 20, 2010, to \$25,000,000 on May 10, 2012, and to \$35,000,000 on October 15, 2013. At June 30, 2017, a total of \$32,277,861 was generated for matching fund purposes by the issuance of these serial bonds. Additional issuance from this series may be issued as needed for future state matching purposes. Bond issuances are retired in the fiscal year of issuance. No liability for these bonds exists at June 30, 2017.

## 5. Capital Contributions and State Matching

### *Capital Contributions*

CWSRF has been awarded 27 federal grants from the EPA. These grants are available through the EPA's Automated Clearing House Payment System (ACH) and the Automated Standard Application for Payments (ASAP). These grants are authorized by Title VI of the Clean Water Act, as amended in 1987 and require matching funds from the state. As of June 30, 2017, the EPA has awarded grants of \$469,854,923 to the state, of which \$466,180,630 has been drawn for loans and administrative expenses.

The following summarizes the grants awarded, amounts drawn on each grant as of June 30, 2017, and balances available for future loans:

For the Year Ended June 30:	Federal Grant Amount	Cumulative Funds Drawn as of July 1, 2016	Funds Drawn During Year Ended June 30, 2017	Cumulative Funds Drawn as of June 30, 2017	Remaining Grant Funds Available at June 30, 2017
AARA	\$ 43,081,400	\$ 43,081,400	\$ -	\$ 43,081,400	\$ -
1988 through 2009	305,037,423	305,037,423	-	305,037,423	-
2010	7,456,100	7,456,100	-	7,456,100	-
2011	22,398,000	22,398,000	-	22,398,000	-
2012	31,770,000	31,770,000	-	31,770,000	-
2013	-	-	-	-	-
2014	14,677,000	14,677,000	-	14,677,000	-
2015	15,413,000	15,413,000	-	15,413,000	-
2016	15,334,000	12,654,461	2,679,539	15,334,000	-
2017	14,688,000	-	11,013,707	11,013,707	3,674,293
	<u>426,773,523</u>	<u>409,405,984</u>	<u>13,693,246</u>	<u>423,099,230</u>	<u>3,674,293</u>
	<u>\$ 469,854,923</u>	<u>\$ 452,487,384</u>	<u>\$ 13,693,246</u>	<u>\$ 466,180,630</u>	<u>\$ 3,674,293</u>

CWSRF was provided with a \$15,000 in-kind donation from EPA during the 2004 fiscal year which was authorized for program administration.

# Clean Water State Revolving Fund

## Notes to Financial Statements

### *State Matching*

The state has provided matching for federal grant awards through General Fund and state capital outlay appropriations totaling \$26,753,586. In addition, part of the required matching share has been provided through the issuance of Revenue Match Bonds secured by revenue of CWSRF (see note 4). As of June 30, 2017, bonds totaling \$59,600,000 have been issued and repaid resulting in net proceeds of \$58,689,377 being used as state matching funds. Additional match bonds will be negotiated as needed to cover future capitalization grants. As of June 30, 2017, matching contributions are as follows:

	Cumulative State Match as of July 1, 2016	Matching Funds During Year Ended June 30, 2017	Cumulative State Match as of June 30, 2017
State cash contribution	\$ 26,753,586	\$ -	\$ 26,753,586
Revenue bond proceeds	58,689,377	-	58,689,377
	<u>\$ 85,442,963</u>	<u>\$ -</u>	<u>\$ 85,442,963</u>

## 6. Loan Administration Fees

Four percent of the federal grant amounts awarded by the EPA are allocated to fund the administrative cost of operating the loan program. The following schedule presents each grant, the four percent allocated from each grant, the cumulative expenses incurred and drawn in administering the program, and the amount available to be drawn from the EPA for future administrative expenses.

For the Year Ended June 30:	Federal Grant Amount	4% Authorized For Program Administration	Administrative Expenses Drawn as of June 30, 2017	Grant Funds Available For Administration
1988 through 2008	\$ 297,581,423	\$ 11,917,659	\$ 9,019,862	\$ 2,897,797
2009	7,456,000	298,240	607,306	2,588,731
2010	7,456,100	298,244	358,659	2,528,316
2011	22,398,000	895,920	574,986	2,849,250
2012	31,770,000	1,270,800	622,483	3,497,567
2013	-	-	691,604	2,805,963
2014	14,677,000	587,080	616,557	2,776,486
2015	15,413,000	616,520	512,097	2,880,909
2016	15,334,000	613,360	800,662	2,693,607
2017	14,688,000	587,520	685,943	2,595,184
Total	<u>\$ 426,773,523</u>	<u>\$ 17,085,343</u>	<u>\$ 14,490,159</u>	

At June 30, 2017 CWSRF had \$2,595,185 of grant funds available for program administration.

# **Clean Water State Revolving Fund**

## **Notes to Financial Statements**

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### **7. Transfers to Louisiana Department of Environmental Quality**

For the year ended June 30, 2017, CWSRF provided \$3,860,836 of support to other departments within DEQ to cover those departments' state matching requirements. These funds were derived from administration fees CWSRF earned from loans outstanding, and the transfers are reported as other expenses within the administration fund in the statement of revenues, expenses, and changes in net position.

### **8. Risk Management**

CWSRF participates in the State of Louisiana's Risk Management Program. 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. Refer to the State of Louisiana's risk disclosure in the June 30, 2017 Comprehensive Annual Financial Report for more details.

### **9. Subsequent Events**

Management has evaluated subsequent events through January 26, 2018, which is the date the financial statements were available to be issued.

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*Supplementary Information*

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**Clean Water State Revolving Fund**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2017**

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<u>Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Environmental Protection Agency</b>		
Direct Programs:		
Capitalization grants for state revolving funds	66.458	<u>\$ 13,693,246 *</u>
Total expenditures of federal awards		<u><u>\$ 13,693,246</u></u>

*\* audited as a major program*

# Clean Water State Revolving Fund

## Notes to Schedule of Expenditures of Federal Awards

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### ***Reporting Entity***

The accompanying schedule of expenditures of federal awards presents the activities of federal award programs expended by the Clean Water State Revolving Fund (“CWSRF”). CWSRF’s reporting entity is defined in Note 1 of the notes to financial statements.

### ***Basis of Presentation***

The accompanying schedule of expenditures of federal awards includes the federal grant activity of CWSRF under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the schedule presents only a selected portion of the operations of CWSRF, it is not intended to and does not present the financial position or changes in net position.

### ***Summary of Significant Accounting Policies***

The schedule of expenditures of federal awards is reported on the same accounting basis as the financial statements, which is described in Note 1 of the notes to financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

CWSRF did not elect to use the 10 percent de minimis indirect rate.

### ***Loans to Subrecipients***

Capitalization Grants for Clean Water State Revolving Fund CFDA# 66.458 include \$13,006,372 of expenditures that were disbursed as loan awards to qualifying subrecipients which includes \$674,075 of principal forgiveness loans.

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*Reports Required by  
Government Auditing Standards*

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

Clean Water State Revolving Fund  
Louisiana Department of Environmental Quality  
Baton Rouge, 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 Clean Water State Revolving Fund, an enterprise fund of the State of Louisiana, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Clean Water State Revolving Fund’s basic financial statements, and have issued our report thereon dated January 26, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Clean Water State Revolving 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clean Water State Revolving Fund’s internal control. Accordingly, we do not express an opinion on the effectiveness of Clean Water State Revolving 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 Clean Water State Revolving Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## 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.



Covington, Louisiana  
January 26, 2018

## **Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance**

Clean Water State Revolving Fund  
Louisiana Department of Environmental Quality  
Baton Rouge, Louisiana

### **Report on Compliance for Each Major Federal Program**

We have audited Clean Water State Revolving Fund's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Clean Water State Revolving Fund's major federal programs for the year ended June 30, 2017. Clean Water State Revolving Fund's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Clean Water State Revolving Fund's major federal programs 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 States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Clean Water State Revolving 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 each major federal program. However, our audit does not provide a legal determination of Clean Water State Revolving Fund's compliance.

## Opinion on Each Major Federal Program

In our opinion, Clean Water State Revolving Fund, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

## Report on Internal Control Over Compliance

Management of Clean Water State Revolving 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 of compliance, we considered Clean Water State Revolving Fund's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Clean Water State Revolving 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.

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 based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose



Covington, Louisiana  
January 26, 2018

**Clean Water State Revolving Fund**  
**Summary of Auditor's Results and Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2017**

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**A. Summary of Audit Results**

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified                    yes           ✓           no

Significant deficiencies identified that  
not considered to be material weaknesses                    yes           ✓           none reported

Noncompliance material to financial  
statements noted                    yes           ✓           no

*Federal Awards*

Internal control over major programs:

Material weaknesses identified                    yes           ✓           no

Significant deficiencies identified that  
not considered to be material weaknesses                    yes           ✓           none reported

Type of auditors' report issued on compliance  
for major programs: Unmodified

Any audit findings disclosed that are required  
to be reported in accordance with  
Uniform Guidance                    yes           ✓           no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
66.458	Capitalization Grants for State Revolving Funds

Dollar threshold used to distinguish between  
Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk audit           ✓           yes                    no

**Clean Water State Revolving Fund**  
**Schedule of Findings and Questioned Costs *(Continued)***  
**For the Year Ended June 30, 2017**

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**B. Findings in Accordance with *Government Auditing Standards***

None Noted.

**C. Findings and Questioned Costs for Federal Awards Under the Uniform Guidance**

None Noted.

**Clean Water State Revolving Fund**  
**Summary Schedule of Prior Year Findings and Questioned Costs**  
**For the Year Ended June 30, 2017**

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**A. Findings in Accordance with *Government Auditing Standards***

None noted.

**B. Findings and Questioned Costs for Federal Awards Under OMB Circular A-133**

None noted.