

CLEAN WATER STATE REVOLVING FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDED JUNE 30, 2011
ISSUED MAY 30, 2012

**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

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$4.86. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 8777 or Report ID No. 80110131 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Kerry Fitzgerald, Chief Administrative Officer, at 225-339-3800.

TABLE OF CONTENTS

	Page
Executive Summary	2
Independent Auditor's Report on the Financial Statements	3
	Statement
Financial Statements:	
Statement of Net Assets.....	A.....5
Statement of Revenues, Expenses, and Changes in Fund Net Assets	B.....6
Statement of Cash Flows	C.....7
Notes to the Financial Statements	8
	Exhibit
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	A
Report on Compliance With Requirements Applicable to the Capitalization Grants for Clean Water State Revolving Funds and on Internal Control Over Compliance in Accordance With the <i>Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs</i>	B

EXECUTIVE SUMMARY

Our procedures at the Department of Environmental Quality (DEQ) for the Clean Water State Revolving Fund (CWSRF) for the period July 1, 2010, through June 30, 2011, disclosed the following:

- Based on our audit, the financial statements of the CWSRF are presented fairly.
- Based on our audit, DEQ - CWSRF complied, in all material respects, with the compliance requirements applicable to its Capitalization Grants for Clean Water State Revolving Funds for the year ended June 30, 2011.

This report is a public report and has been distributed to state officials. We appreciate DEQ's assistance in the successful completion of our work.



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

March 6, 2012

Independent Auditor's Report
on the Financial Statements

CLEAN WATER STATE REVOLVING FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the Louisiana Department of Environmental Quality - Clean Water State Revolving Fund, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of management of the Clean Water State Revolving Fund program. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the accompanying financial statements present only the Clean Water State Revolving Fund, and do not purport to, and do not, present fairly the financial position of the State of Louisiana or the Louisiana Department of Environmental Quality and its changes in financial position, including cash flows, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Department of Environmental Quality - Clean Water State Revolving Fund as of June 30, 2011, and its changes in financial position, including cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 6, 2012, 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, and 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* and should be considered in assessing the results of our audit.

In addition, we have issued a report dated March 6, 2012, on our consideration of the Clean Water State Revolving 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,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is written in a cursive style.

Daryl G. Purpera, CPA, CFE
Legislative Auditor

CL:ETM:BQD:THC:ch

CWSRF 2011

**CLEAN WATER STATE REVOLVING FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

Statement of Net Assets, June 30, 2011

ASSETS

Current assets:

Cash in state treasury (note 2)	\$222,905,236
Receivables - due from others (note 3)	1,374,364
Current loans receivable (note 4)	16,305,988
Total current assets	<u>240,585,588</u>

Noncurrent assets - loans receivable (note 4)	<u>207,717,813</u>
Total assets	<u>448,303,401</u>

LIABILITIES

Current liabilities - accounts payable and accrued expenses	<u>253,759</u>
---	----------------

NET ASSETS - unrestricted (note 7)	<u><u>\$448,049,642</u></u>
---	-----------------------------

The accompanying notes are an integral part of this statement.

**CLEAN WATER STATE REVOLVING FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2011**

OPERATING REVENUES

Interest earned on loans receivable	\$6,478,191
Interest earned on cash in state treasury	670,952
Federal funds - administrative	690,011
Total operating revenues	<u>7,839,154</u>

OPERATING EXPENSES

Administrative expenses (note 8)	690,011
Bond issuance costs (note 8)	27,690
American Recovery and Reinvestment Act expenses	22,768,599
Total operating expenses	<u>23,486,300</u>

OPERATING LOSS

(15,647,146)

Capital contributions	23,412,296
Capital contributions - American Recovery and Reinvestment Act	<u>22,768,599</u>

CHANGE IN NET ASSETS

30,533,749

NET ASSETS - BEGINNING OF YEAR417,515,893**NET ASSETS - END OF YEAR**\$448,049,642

The accompanying notes are an integral part of this statement.

**CLEAN WATER STATE REVOLVING FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from borrowers	\$38,361,903
Cash received from interest on cash in state treasury	681,959
Cash received from Environmental Protection Agency	694,392
Cash payments for administrative expenses	(694,392)
Cash payments for American Recovery and Reinvestment Act projects	(22,768,599)
Cash payments to borrowers	(28,755,328)
Net cash used by operating activities	<u>(12,480,065)</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

Capital contributions	23,583,532
Capital contributions - American Recovery and Reinvestment Act	22,768,599
Proceeds from sale of bonds	4,483,832
Principal paid on bonds	(4,500,000)
Interest and fees paid on bonds	(11,522)
Net cash provided by capital financing activities	<u>46,324,441</u>

Net increase in cash 33,844,376

Cash at beginning of the year 189,060,860

Cash at end of the year \$222,905,236

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES:**

Operating loss	(\$15,647,146)
Bond issuance costs and related fees	27,690
Changes in assets and liabilities:	
Decrease in loans receivable	3,098,412
Decrease in due from others and accounts receivable	212,943
(Decrease) in accounts payable and accrued expenses	(171,964)

NET CASH USED BY OPERATING ACTIVITIES (\$12,480,065)

**NONCASH INVESTING, CAPITAL,
AND FINANCING ACTIVITIES**

Principal forgiveness on loans \$22,768,599

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

The Louisiana Department of Environmental Quality (DEQ) is a department of the State of Louisiana. DEQ was created in accordance with Louisiana Revised Statute (R.S.) 30:2011 as a part of the executive branch of government. DEQ is charged with environmental protection within the State of Louisiana.

The Clean Water State Revolving Fund (CWSRF) program was established pursuant to Title VI of the Clean Water Act, as amended in 1987 (the Act). The CWSRF program 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. 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. The Financial Services Division and Business and Community Outreach Division within DEQ are responsible for the operations of the CWSRF program 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.

The CWSRF does not have any full-time employees. However, time spent on the CWSRF program by employees of DEQ is captured and the CWSRF subsequently reimburses DEQ for salaries and benefits and other operating expenses of the fund using the current indirect cost rate.

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. Management of the fund applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB

pronouncements. Management has elected to follow GASB statements issued after November 30, 1989, rather than the FASB statements.

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 DEQ, a department within state government. The CWSRF 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 CWSRF 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 CWSRF 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 Assets.

The CWSRF 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 CWSRF are interest earnings and federal funds drawn for program administration. Operating expenses include the administrative expenses of the program, bond issuance and related costs, and principal

forgiveness on loans authorized by the American Recovery and Reinvestment Act of 2010 (ARRA), as applicable. Any revenues and expenses not meeting this definition would be reported as nonoperating revenues and expenses.

E. BUDGETS AND BUDGETARY ACCOUNTING

The CWSRF is budgeted annually by the Louisiana Legislature through the Ancillary Appropriations Act. The Ancillary Appropriations Act (Act 41 of the 2009 Regular Session as amended) authorized expenditures of \$63,081,400 for the loan program for fiscal year 2011 (\$45,000,000 for the base loan program and \$18,081,400 from the ARRA) and allows the fund 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 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 (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 investments and loans can 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.

Loans made by the 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 the 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 26, 2009, and the interest rate on loans made by the CWSRF for water quality improvement projects may be adjusted in accordance with current market rates 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 the CWSRF, to secure the repayment of the principal loaned. Principal and interest on the bonds are paid to the 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:

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 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.

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.

The ARRA provided additional funds to the CWSRF to help stimulate the economy through infrastructure investment. ARRA requires that no less than 50% of the funds be provided as additional subsidization in the form of principal forgiveness, grants, or negative interest loans.

G. NET ASSETS

Net assets comprise the various net earnings from operations, nonoperating revenues, and contributions of capital. Net assets generally are classified in the following components:

Invested in capital assets, net of related debt 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 assets consist of net assets subject to external constraints placed on net asset use by creditors, grantors, contributors or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of all other net 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 Title VI of the Clean Water Act, as amended in 1987, including ARRA, are recorded as capital contributions, except for grant funds drawn for program administration, which are recorded as operating revenues.

I. CAPITAL ASSETS

The CWSRF has no capital assets or long-term obligations at June 30, 2011.

J. COMPENSATED ABSENCES

The CWSRF has no full-time employees. The fund 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 the fund.

K. 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.

2. CASH

As reflected on Statement A, the CWSRF has cash totaling \$222,905,236 at June 30, 2011. 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. DUE FROM OTHERS

As shown on Statement A, the CWSRF has a total due from others of \$1,374,364. This total is comprised of the following:

Due from municipalities for interest due on loans	\$1,080,404
Due from state treasury	51,550
Due from federal government	<u>242,410</u>
Total due from others	<u><u>\$1,374,364</u></u>

4. LOANS RECEIVABLE

The 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 5.5% and are generally repaid over 20 years starting within one year after the project is completed. Loans receivable do not include ARRA projects. Details of loans receivable as of June 30, 2011, are as follows:

Completed projects	\$125,732,015
Projects in progress	<u>98,291,786</u>
Total loans receivable	224,023,801
Less Current Portion of Loans Receivable	<u>(16,305,988)</u>
Noncurrent Loans Receivable	<u><u>\$207,717,813</u></u>

Loans mature at various intervals through December 1, 2032. The scheduled principal payments on loans maturing in subsequent years are as follows:

	<u>Projects in Progress</u>	<u>Completed Projects</u>	<u>Total</u>
Year ending June 30:			
2012	\$5,809,243	\$10,496,745	\$16,305,988
2013	8,506,259	11,626,598	20,132,857
2014	8,098,626	11,626,769	19,725,395
2015	7,367,000	15,423,786	22,790,786
2016	7,537,399	15,378,985	22,916,384
Thereafter	<u>60,973,259</u>	<u>61,179,132</u>	<u>122,152,391</u>
Total	<u><u>\$98,291,786</u></u>	<u><u>\$125,732,015</u></u>	<u><u>\$224,023,801</u></u>

Encumbered Balances

Approximately 52.01% of cash and undrawn capitalization grants are encumbered as follows:

Funds Encumbered

1. Cash and cash equivalents	\$222,905,236
2. Undrawn capitalization grants (excluding ARRA)	<u>29,840,459</u>
3. Total cash and undrawn grants	<u><u>\$252,745,695</u></u>
4. Loans in progress - encumbered	<u>\$131,464,974</u>
5. Loans (4) as percentage of total (3)	52.01%

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.

Loans to Local Governments

As of June 30, 2011, the CWSRF had made loans to 25 municipalities that, in aggregate, exceeded or equaled \$4.5 million for each municipality. The outstanding balances of these loans represent approximately 90% of the total loans receivable as follows:

<u>Local Government</u>	<u>Authorized Loan Amount</u>	<u>Balance on Loans Outstanding</u>
Shreveport	\$82,614,906	\$48,727,932
Monroe	62,000,000	40,158,615
St. Charles	53,800,000	14,797,775
Kenner	34,890,678	10,291,729
Bossier City	31,211,922	5,680,756
Lake Charles	21,000,000	418,405
Ruston	20,932,535	16,913,607
Lafayette	18,113,260	7,410,000
Terrebonne	17,000,000	568,671
Bogalusa	12,499,105	5,849,105
Opelousas	12,050,899	8,263,025
Delhi	11,000,000	10,901,600
Crowley	8,807,430	4,780,598
East Baton Rouge	8,300,000	2,347,498
Slidell	7,998,177	4,505,000
Bastrop	7,500,000	2,305,000
Gonzales	7,294,064	2,514,064
Jennings	6,500,000	2,015,000
Rayne	6,450,000	2,345,000
Springhill	6,279,304	1,948,000
Natchitoches	6,268,321	1,704,187
Caddo-Bossier	6,250,329	1,925,000
Youngsville	6,229,000	4,485,013
Leesville	4,710,000	1,220,000
Pineville	4,500,000	189,656
	<u>\$464,199,930</u>	<u>\$202,265,236</u>
Total		

5. REIMBURSEMENTS DUE TO MUNICIPALITIES FOR CONSTRUCTION

At June 30, 2011, no approved loan disbursement requests are in process.

6. LONG-TERM OBLIGATIONS

The 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 department's note to the Louisiana Public Facilities Authority (LPFA), a conduit issuer of serial bonds for the department and the state.

The first serial bond issue was called Louisiana Public Facilities Authority Taxable Revenue Bonds (CWSRF Match Project) Series 1995. This indebtedness was secured solely from the pledge of the interest portion of the revenues received by the department from loans made by the program. 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 department 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. As of June 30, 2011, a total of \$14,654,221 had been generated for matching fund purposes by the issuance of these serial bonds.

The second serial bond titled Louisiana Public Facilities Authority Revenue Bonds (CWSRF 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 the department from loans made by the program. The Loan Agreement between the LPFA and DEQ was for a total of \$12,000,000 of which \$3,000,000 was issued during the fiscal year ending June 30, 2002. An additional \$6,000,000 was issued during the fiscal year ending June 30, 2003. No bonds were issued during the fiscal years ending June 30, 2004, and June 30, 2005. An additional \$3,000,000 was issued during the fiscal year ending June 30, 2006. The \$12,000,000 Indenture of Trust was issued between the LPFA and Hancock Bank of Louisiana. As of June 30, 2011, a total of \$11,757,295 was generated for matching fund purposes by the issuance of these serial bonds.

The third serial bond was called Louisiana Public Facilities Authority Revenue Bonds (CWSRF 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 the department from loans made by the program. 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 fiscal year ending June 30, 2007. An additional \$6,000,000 was issued during the fiscal year ending June 30, 2010. The \$10,000,000 Indenture of Trust was issued between the LPFA and Hancock Bank of Louisiana and subsequently amended to \$20,000,000. An additional \$4,500,000 was

issued during the fiscal year ending June 30, 2011. As of June 30, 2011, a total of \$14,346,668 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. All debt issued has been repaid; therefore, no liability exists at June 30, 2011.

**7. CAPITAL CONTRIBUTIONS,
MATCHING, AND NET ASSETS**

The CWSRF has been awarded 23 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, 2011, the EPA has awarded grants of \$377,972,923 to the state, of which \$345,282,655 has been drawn for loans and administrative expenses. The state has provided matching funds of \$67,511,770. The following summarizes the grants awarded, amounts drawn on each grant as of June 30, 2011, and balances available for future loans:

<u>Year</u>	<u>Grant Amount</u>	<u>Cumulative Dollars Drawn as of June 30, 2010</u>	<u>Current Fiscal Year Activity</u>	<u>Cumulative Dollars Drawn as of June 30, 2011</u>	<u>Remaining Grant Dollars Available as of June 30, 2011</u>
1988	\$12,000,000	\$12,000,000		\$12,000,000	
1989	10,368,765	10,368,765		10,368,765	
1990	10,725,264	10,725,264		10,725,264	
1991	22,560,714	22,560,714		22,560,714	
1992	21,359,349	21,359,349		21,359,349	
1993	21,129,174	21,129,174		21,129,174	
1994	13,110,372	13,110,372		13,110,372	
1995	13,540,230	13,540,230		13,540,230	
1996	22,179,267	22,179,267		22,179,267	
1997	6,820,400	6,820,400		6,820,400	
1998	22,190,138	22,190,138		22,190,138	
1999	14,804,064	14,804,064		14,804,064	
2000	14,753,871	14,753,871		14,753,871	
2001	14,736,260	14,736,260		14,736,260	
2003	14,655,200	14,655,200		14,655,200	
2004	14,560,000	14,560,000		14,560,000	
2005	14,853,200	14,853,200		14,853,200	
2006	21,469,500	16,398,190	\$5,071,310	21,469,500	
2008	11,765,655		11,765,655	11,765,655	
ARRA	43,081,400	17,852,974	22,378,617	40,231,591	\$2,849,809
2009	7,456,000		7,412,914	7,412,914	43,086
2010	7,456,100		56,727	56,727	7,399,373
2011	22,398,000				22,398,000
Total	<u>\$377,972,923</u>	<u>\$298,597,432</u>	<u>\$46,685,223</u>	<u>\$345,282,655</u>	<u>\$32,690,268</u>

The state has provided its required matching share of federal grant awards through General Fund and state capital outlay appropriations totaling \$26,753,586. Tobacco Settlement monies of \$3,000,000 were deposited in the fund in the 2000 fiscal year. In addition, part of the required matching share has been provided through the issuance of Revenue Match Bonds secured by revenue of the fund. Beginning in fiscal year 1995, revenue bonds of \$15,000,000 were authorized. In fiscal year 2002, \$12,000,000 in revenue match bonds were authorized, and in fiscal year 2007, \$10,000,000 in revenue bonds were authorized and subsequently amended to \$20,000,000. As of June 30, 2011, bonds totaling \$47,000,000 have been authorized, of which \$41,500,000 have been issued and repaid resulting in net proceeds of \$40,758,184 being used as state matching funds. Additional match bonds will be negotiated as needed to cover future capitalization grants. As of June 30, 2011, matching contributions are as follows:

	Cumulative State Match as of <u>June 30, 2010</u>	2011 Contributions	Cumulative State Match as of <u>June 30, 2011</u>
State cash contribution	\$26,753,586		\$26,753,586
Revenue bond proceeds	<u>36,285,874</u>	<u>\$4,472,310</u>	<u>40,758,184</u>
Total	<u>\$63,039,460</u>	<u>\$4,472,310</u>	<u>\$67,511,770</u>

Components of Net Assets

Capital Contributions, Grant Awards, and Matching Contributions (cash only):		
EPA		\$292,173,279
EPA - federal funds for program administration		12,673,486
EPA - ARRA		40,621,573
State of Louisiana match		<u>26,753,586</u>
Total cash contributions		<u>372,221,924</u>
Administrative fee deposit		260,911
Cumulative loan interest earnings		93,283,120
Cumulative treasury interest earnings		36,320,562
Cumulative loan principal forgiveness - ARRA		(40,621,573)
Cumulative administrative expenses		(12,673,486)
Cumulative bond costs		<u>(741,816)</u>
Total		<u>75,827,718</u>
Total net assets - unrestricted		<u>\$448,049,642</u>

8. OPERATING EXPENSES

Administrative Expenses

Four percent of the federal grant amounts awarded by the EPA are allocated to fund the administrative cost of operating the revolving loan fund. The following schedule presents each grant, the 4% amount 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.

<u>Federal Grant Year</u>	<u>Available 4% Set-Aside</u>	<u>State Fiscal Year</u>	<u>Expenses Incurred</u>	<u>Available for Administration</u>
1988	\$480,000			\$480,000
1989	414,751	1989	\$1,597	893,154
1990	429,011	1990	11,634	1,310,531
1991	902,429	1991	37,322	2,175,638
1992	854,374	1992	467,803	2,562,209
1993	845,167	1993	531,698	2,875,678
1994	524,415	1994	549,953	2,850,140
1995	541,609	1995	592,145	2,799,604
1996	887,171	1996	605,514	3,081,261
1997	272,816	1997	612,299	2,741,778
1998	887,606	1998	724,915	2,904,469
1999	592,163	1999	817,220	2,679,412
2000	590,155	2000	777,592	2,491,975
2001	589,450	2001	778,657	2,302,768
2002		2002	890,958	1,411,810
2003	586,208	2003	901,185	1,096,833
2004	581,800	2004	872,551	806,082
2005	594,090	2005	535,781	864,391
2006	858,780	2006	359,695	1,363,476
2007		2007	399,177	964,299
2008	470,626	2008	356,578	1,078,347
2009	298,240	2009	728,795	647,792
2010	298,244	2010	430,406	515,630
2011	895,950	2011	690,011	721,577
Total	<u>\$13,395,055</u>		<u>\$12,673,486</u>	

Bond Issuance Costs

Bond issuance costs and commitment fee expenses are absorbed by bond proceeds and or offset from cumulative bond proceeds as a reduction of state match and are therefore not required to be charged against the 4% administrative costs ceiling, in accordance with 40 CFR 35.3120(g)(2).

9. ADMINISTRATIVE FEES

Annually, the CWSRF assesses a 0.5% administrative fee on all outstanding loan balances. Federal law allows the state to charge additional fees to supplement the 4% allowed from the fund itself to cover future excess administrative costs. These funds are deposited in the state treasury and accounted for outside the State Revolving Fund and are therefore 100% available for use. As of June 30, 2011, administrative fees are as follows:

Cash in state treasury, June 30, 2010	\$14,876,522
Current year receipts:	
0.5% administrative fees	1,117,736
Treasury interest on administrative fees	51,502
Current year disbursements:	
ARRA Administration	(222,103)
Providence Engineering	(125,354)
Floating Inslant Environmental Solutions	(29,716)
Public Financing Management, Inc.	(4,700)
Council of Infrastructure	<u>(3,000)</u>
Cash in state treasury, June 30, 2011	<u><u>\$15,660,887</u></u>

10. 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 CWSRF has no lawsuits outstanding at June 30, 2011.

11. SUBSEQUENT EVENTS

As part of the \$20,000,000 LPFA Revenue Bonds Series 2007 bond issue referred to in note 6, \$3,200,000 was issued on February 8, 2012. This bond was subsequently paid on February 9, 2012.

EXHIBITS

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

The following pages contain reports on internal control over financial reporting and on compliance and other matters as 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 Clean Water State Revolving Funds 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 6, 2012

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
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Baton Rouge, Louisiana

We have audited the financial statements of the Louisiana Department of Environmental Quality - Clean Water State Revolving Fund as of and for the year ended June 30, 2011, and have issued our report thereon dated March 6, 2012. Our report was modified to include an explanatory paragraph describing the individual fund presentation. 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.

Internal Control Over Financial Reporting

Management of the Department of Environmental Quality - Clean Water State Revolving Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Louisiana Department of Environmental Quality - Clean Water State Revolving Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Louisiana Department of Environmental Quality - Clean Water State Revolving Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Louisiana Department of Environmental Quality - Clean Water State Revolving Fund's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Louisiana Department of Environmental Quality - Clean Water State Revolving Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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*.

This report is intended solely for the information and use of management of the Department of Environmental Quality, others within the entity, the federal awarding agency, and the Louisiana Legislature and is not intended to be and should not be used by anyone other than these specified parties. 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

CL:ETM:BQD:THC:ch

CWSRF 2011



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

March 6, 2012

Report on Compliance With Requirements Applicable to the Capitalization
Grants for Clean Water State Revolving Funds 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*

**CLEAN WATER STATE REVOLVING FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**
Baton Rouge, Louisiana

Compliance

We have audited the compliance of the Louisiana Department of Environmental Quality - Clean Water State Revolving Fund with the types of compliance requirements described in the Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the Capitalization Grants for Clean Water State Revolving Funds (CFDA 66.458) for the year ended June 30, 2011, as specified by the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to this federal program is the responsibility of management of the Louisiana Department of Environmental Quality. Our responsibility is to express an opinion on the Clean Water State Revolving Fund's compliance based on our audit.

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; OMB Circular A-133; and the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*. Those standards and OMB Circular A-133 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 program occurred. An audit includes examining, on a test basis, evidence about the 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. Our audit does not provide a legal determination of the Clean Water State Revolving Fund's compliance with those requirements.

In our opinion, the Louisiana Department of Environmental Quality - Clean Water State Revolving Fund complied, in all material respects, with the requirements referred to previously that could have a direct and material effect on its Capitalization Grants for Clean Water State Revolving Funds for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Department of Environmental Quality - Clean Water State Revolving Fund is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to this federal program. In planning and performing our audit, we considered the Department of Environmental Quality - Clean Water State Revolving Fund's internal control over compliance with requirements that could have a direct and material effect on its Capitalization Grants for Clean Water State Revolving Funds (CFDA 66.458), in order to determine our auditing procedures 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 Department of Environmental Quality - 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management of the Department of Environmental Quality, others within the entity, the federal awarding agency, and the Louisiana Legislature and is not intended to be and should not be used by anyone other than these specified parties. 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 that reads "Daryl G. Purpera". The signature is written in a cursive, flowing style.

Daryl G. Purpera, CPA, CFE
Legislative Auditor

CL:ETM:BQD:THC:ch

CWSRF 2011