

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
ISSUED SEPTEMBER 15, 2010

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

July 8, 2010

Independent Auditor's Report
on the Financial Statements

MUNICIPAL FACILITIES REVOLVING LOAN 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 - Municipal Facilities Revolving Loan Fund, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of management of the Municipal Facilities Revolving Loan 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 Municipal Facilities Revolving Loan 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 - Municipal Facilities Revolving Loan Fund as of June 30, 2009, 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 July 8, 2010, on our consideration of the Municipal Facilities Revolving Loan 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 read in conjunction with this report in assessing the results of our audit.

In addition, we have issued a report dated July 8, 2010, on our consideration of the Municipal Facilities Revolving Loan Fund's internal control over compliance with certain laws and regulations, and our tests of its compliance with those laws and regulations, in accordance with the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

LS:EM:BQD:THC:dl

MFRLF 2009

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

Statement of Net Assets, June 30, 2009

ASSETS

Current assets:

Cash in state treasury (note 2)	\$167,931,184
Receivables - due from others (note 3)	1,491,781
Current loans receivable (note 4)	16,552,911
Total current assets	<u>185,975,876</u>

Noncurrent assets - loans receivable (note 4)	<u>211,063,314</u>
Total assets	<u>397,039,190</u>

LIABILITIES

Current liabilities - accounts payable and accrued expenses	<u>63,066</u>
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NET ASSETS - unrestricted	<u><u>\$396,976,124</u></u>
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The accompanying notes are an integral part of this statement.

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**MUNICIPAL FACILITIES REVOLVING LOAN 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, 2009**

OPERATING REVENUES

Interest earned on loans receivable	\$7,397,293
Interest earned on cash in state treasury	2,438,649
Total operating revenues	<u>9,835,942</u>

OPERATING EXPENSES

Administrative expenses (note 8)	728,795
Commitment fee expense	15,000
Total operating expenses	<u>743,795</u>

OPERATING INCOME

9,092,147

Capital contributions

3,548,922

CHANGE IN NET ASSETS

12,641,069

NET ASSETS - BEGINNING OF YEAR

384,335,055

NET ASSETS - END OF YEAR

\$396,976,124

The accompanying notes are an integral part of this statement.

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**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from borrowers	\$19,555,472
Cash received from interest on cash in state treasury	2,646,325
Cash payments for administrative expenses	(696,929)
Cash payments to borrowers	<u>(7,694,769)</u>
Net cash provided by operating activities	<u>13,810,099</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Capital contributions	3,522,367
Interest and fees paid on bonds	<u>(15,000)</u>
Net cash provided by noncapital financing activities	<u>3,507,367</u>

Net increase in cash	17,317,466
Cash at beginning of the year	<u>150,613,718</u>
Cash at end of the year	<u><u>\$167,931,184</u></u>

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

Operating income	\$9,092,147
Bond issuance costs and related fees	15,000
Changes in assets and liabilities:	
(Increase) in loans receivable	4,429,174
(Increase) in due from others and accounts receivable	239,612
Increase in accounts payable and accrued expenses	<u>34,166</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$13,810,099

The accompanying notes are an integral part of this statement.

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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 Municipal Facilities Revolving Loan Fund (MFRLF) program was established pursuant to Title VI of the Clean Water Act, as amended in 1987 (the Act). The MFRLF program presently operates under R.S. 30:2078-2089. 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 and Municipal Facilities Engineering Section within DEQ are responsible for the operations of the MFRLF program in the State of Louisiana. These divisions within DEQ provide assistance to municipalities in the development, financing, and implementation of wastewater treatment management plans and plants. Engineering oversight, design review and inspection services as well as environmental assessment services are provided by the Municipal Facilities Engineering Section 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 MFRLF does not have any full-time employees. However, time spent on the MFRLF program by employees of DEQ is captured and the MFRLF 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 MFRLF 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 MFRLF 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 MFRLF 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 MFRLF 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 MFRLF are interest earnings. Operating expenses include the administrative expenses of the program and bond issuance and related costs, as applicable. Any revenues and expenses not meeting this definition would be reported as nonoperating revenues and expenses.

E. BUDGETS AND BUDGETARY ACCOUNTING

The MFRLF is budgeted annually by the Louisiana Legislature through the Ancillary Appropriations Act. The Ancillary Appropriations Act (Act 49 of the 2008 Regular Session as amended) authorized expenditures of \$45,000,000 for the loan program for fiscal year 2008-2009 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 MFRLF 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 MFRLF 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 MFRLF, 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 new interest rate was set by the secretary of the department on January 26, 2009. The new interest rate on loans made by the MFRLF for water quality improvement projects may be adjusted in accordance with current market rate and availability of funds.

The previous permanent finance charge on all loans was 2.95% and was stated in loan documents as 2.45% interest plus a 0.5% administrative fee charged only on loan monies drawn. The previous rate was set by the secretary of the department on October 11, 2006, and was in effect through January 25, 2009.

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 MFRLF, to secure the repayment of the principal loaned. Principal and interest on the bonds are paid to the MFRLF 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 MFRLF goal for collections of the dedicated revenues for repayment of the loan secured by revenue bonds is 125%; however, many factors can create deviation from this goal. It is customary to use the same minimum required coverage ratio as was previously established for outstanding debt of the loan recipient.

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

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

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

G. NET 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, are recorded as capital contributions.

I. CAPITAL ASSETS

The MFRLF has no capital assets or long-term obligations at June 30, 2009.

J. COMPENSATED ABSENCES

The MFRLF 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 MFRLF has cash totaling \$167,931,184 at June 30, 2009. 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 MFRLF has a total due from others of \$1,491,781. This total is comprised of the following:

Due from municipalities for interest due on loans	\$1,336,607
Due from state treasury	104,538
Due from federal government	<u>50,636</u>
Total due from others	<u><u>\$1,491,781</u></u>

4. LOANS RECEIVABLE

The MFRLF 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 4.45% and are generally repaid over 20 years starting within one year after the project is completed. Details of loans receivable as of June 30, 2009, are as follows:

Completed projects	\$136,032,806
Projects in progress	<u>91,583,419</u>
Total loans receivable	<u><u>\$227,616,225</u></u>
Less Current Portion of Loans Receivable	<u>(16,552,911)</u>
Noncurrent Loans Receivable	<u><u>\$211,063,314</u></u>

Loans mature at various intervals through April 1, 2029. 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:			
2010	\$1,778,000	\$14,774,911	\$16,552,911
2011	4,214,000	10,999,984	15,213,984
2012	4,380,000	11,345,745	15,725,745
2013	4,546,000	11,646,673	16,192,673
2014	4,914,000	11,665,769	16,579,769
Thereafter	<u>71,751,419</u>	<u>75,599,724</u>	<u>147,351,143</u>
Total	<u><u>\$91,583,419</u></u>	<u><u>\$136,032,806</u></u>	<u><u>\$227,616,225</u></u>

Encumbered Balances

Approximately 11.85% of cash and undrawn capitalization grants are encumbered as follows:

Funds Encumbered

1. Cash and cash equivalents	\$167,931,184
2. Undrawn capitalization grants	<u>29,921,288</u>
3. Total cash and undrawn grants	<u><u>\$197,852,472</u></u>
4. Loans in progress - encumbered	<u>\$23,441,581</u>
5. Loans (4) as percentage of total (3)	11.85%

The Loans in Progress - Encumbered represents the 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, 2009, the MFRLF had made loans to 22 municipalities that, in aggregate, exceeded or equaled \$4.5 million for each municipality. The outstanding balances of these loans represent approximately 92% of the total loans receivable as follows:

MUNICIPAL FACILITIES REVOLVING LOAN FUND

<u>Local Government</u>	<u>Authorized Loan Amount</u>	<u>Balance on Loans Outstanding</u>
City of Shreveport	\$71,200,372	\$50,311,314
City of Monroe	62,000,000	35,720,007
Parish of St. Charles	47,300,000	14,690,000
City of Ruston	24,137,282	17,937,193
City of New Iberia	24,000,000	17,334,715
City of Natchitoches	19,169,136	2,399,555
City of Lafayette	18,113,260	9,265,000
City of Kenner	12,890,678	5,340,000
City of Bogalusa	12,499,105	7,139,105
City of Opelousas	12,050,899	8,588,512
City of Bossier City	9,211,922	6,312,792
City of Crowley	8,850,000	5,500,619
City of Slidell	7,998,177	5,300,000
City of Bastrop	7,500,000	3,130,000
City of Gonzales	7,294,064	3,324,064
Town of Walker	6,888,527	4,861,527
City of Jennings	6,500,000	2,745,000
City of Rayne	6,450,000	3,045,000
City of Springhill	6,279,304	2,651,000
Caddo-Bossier Port Commission	6,250,329	2,615,000
East Baton Rouge Sewerage Commission	5,671,062	
City of Leesville	4,710,000	1,780,000
	<u>\$386,964,117</u>	<u>\$209,990,403</u>
Total		

5. REIMBURSEMENTS DUE TO MUNICIPALITIES FOR CONSTRUCTION

At June 30, 2009, no approved loan disbursement requests are in process.

6. LONG-TERM OBLIGATIONS

The MFRLF 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. 30:2078 *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 (MFRLF 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, 2009, a total of \$14,654,221 had been generated for matching fund purposes by issuing these serial bonds.

The second serial bond was called Louisiana Public Facilities Authority Revenue Bonds (MFRLF Match Project) Series 2001 and 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, 2009, a total of \$11,757,295 was generated for matching fund purposes by issuing these serial 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 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. The \$10,000,000 Indenture of Trust was issued between the LPFA and Hancock Bank of Louisiana. As of June 30, 2009, a total of \$3,911,704 was generated for matching fund purposes by issuing 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, 2009.

7. CAPITAL CONTRIBUTIONS, MATCHING, AND NET ASSETS

The MFRLF has been awarded 19 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, 2009, the EPA has awarded grants of \$297,581,423 to the state of which \$267,660,135 has been drawn for loans and administrative expenses. The state has provided matching funds of \$57,076,806. The following summarizes the grants awarded, amounts drawn on each grant as of June 30, 2009, and balances available for future loans:

MUNICIPAL FACILITIES REVOLVING LOAN FUND

<u>Year</u>	<u>Grant Amount</u>	<u>Cumulative Dollar Drawn as of June 30, 2008</u>	<u>Current Fiscal Year Draws</u>	<u>Cumulative Dollars Drawn as of June 30, 2009</u>	<u>Remaining Grant Dollars Available as of June 30, 2009</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	14,594,063	\$259,137	14,853,200	
2006	21,469,500	24,082	3,289,785	3,313,867	\$18,155,633
2008	11,765,655				11,765,655
Total	<u>\$297,581,423</u>	<u>\$264,111,213</u>	<u>\$3,548,922</u>	<u>\$267,660,135</u>	<u>\$29,921,288</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 was authorized and in fiscal year 2007, \$10,000,000 in revenue bonds was authorized. As of June 30, 2008, bonds totaling \$31,000,000 have been issued and repaid resulting in net proceeds of \$30,338,220 being used as state matching funds. Additional match bonds will be negotiated as needed to cover future capitalization grants. As of June 30, 2009, matching contributions are as follows:

	<u>Cumulative State Match as of June 30, 2008</u>	<u>2009 Contributions (Reductions)</u>	<u>Cumulative State Match as of June 30, 2009</u>
State cash contribution	\$26,753,586		\$26,753,586
Revenue bond proceeds	<u>30,338,220</u>	<u>(\$15,000)</u>	<u>30,323,220</u>
Total	<u>\$57,091,806</u>	<u>(\$15,000)</u>	<u>\$57,076,806</u>

Components of Net Assets

Capital contributions (cash only):		
Environmental Protection Agency		\$267,660,135
State of Louisiana match		<u>26,753,586</u>
Total cash contributions		<u>294,413,721</u>
Administrative fee deposit		260,911
Cumulative loan interest earnings		79,715,867
Cumulative treasury interest earnings		34,815,474
Cumulative administrative expenses		(11,553,069)
Cumulative bond costs		<u>(676,780)</u>
Total		<u>102,562,403</u>
Total net assets - unrestricted		<u>\$396,976,124</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.

MUNICIPAL FACILITIES REVOLVING LOAN FUND

<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	582,400	2004	872,551	806,682
2005	594,128	2005	535,781	865,029
2006	858,780	2006	359,695	1,364,114
2007		2007	399,177	964,937
2008	470,626	2008	356,578	1,078,985
2009		2009	728,795	350,190
Total	<u>\$11,903,259</u>		<u>\$11,553,069</u>	

Bond Issuance Costs and Commitment Fee Expenses

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 MFRLF 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, 2009, administrative fees were as follows:

Cash in state treasury, June 30, 2008	\$13,366,190
Current year receipts:	
0.5% administrative fees	1,169,596
Treasury interest on administrative fees	236,428
Current year disbursements:	
Southern University	(11,350)
New Orleans Sewer & Water	(70,000)
Providence Engineering	<u>(35,470)</u>
 Cash in state treasury, June 30, 2009	 <u><u>\$14,655,394</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 MFRLF has no lawsuits outstanding at June 30, 2009.

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**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

July 8, 2010

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*

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Baton Rouge, Louisiana

We have audited the financial statements of the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund as of and for the year ended June 30, 2009, and have issued our report thereon dated July 8, 2010. 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

In planning and performing our audit, we considered the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan 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 - Municipal Facilities Revolving Loan Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 - Municipal Facilities Revolving Loan 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

LS:EM:BQD:THC:dl

MFRLF 2009



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

July 8, 2010

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*

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**
Baton Rouge, Louisiana

Compliance

We have audited the compliance of the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund with the types of compliance requirements that are applicable to the Capitalization Grants for Clean Water State Revolving Funds (CFDA 66.458) for the year ended June 30, 2009, 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 Municipal Facilities Revolving Loan 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; and the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the program occurred. An audit includes examining, on a test basis, evidence about the Municipal Facilities Revolving Loan Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Municipal Facilities Revolving Loan Fund's compliance with those requirements.

In our opinion, the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund complied, in all material respects, with the requirements referred to previously that are applicable to its Capitalization Grants for Clean Water State Revolving Funds for the year ended June 30, 2009.

Internal Control Over Compliance

Management of the Department of Environmental Quality - Municipal Facilities Revolving Loan 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 - Municipal Facilities Revolving Loan 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, 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 - Municipal Facilities Revolving Loan Fund's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described below to be a significant deficiency.

Inadequate Subrecipient Monitoring of the Capitalization Grants for Clean Water State Revolving Funds

The Municipal Facilities Revolving Loan Fund (MFRLF) did not fully comply with the subrecipient monitoring requirements for the Capitalization Grants for Clean Water State Revolving Funds (CWSRF, CFDA 66.458).

Office of Management and Budget (OMB) Circular A-133 requires a pass-through entity to (1) ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have a single audit and the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issue a management decision on audit findings within six months after receipt of the subrecipients' audit reports; (3) ensure

the subrecipients take timely and appropriate corrective action on all audit findings; and (4) take appropriate action using sanctions in cases of continued inability or unwillingness of the subrecipient to have the required audits. Furthermore, pass-through entities are responsible for evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

MFRLF program management did not ensure that all required single audits were obtained for its subrecipients of the CWSRF Program. MFRLF management incorrectly concluded that an audit was not needed for a subrecipient who received \$939,382. In addition, MFRLF failed to follow up on a notification letter to a subrecipient that did not properly include \$571,814 in CWSRF program funds in its Schedule of Expenditures of Federal Awards and therefore did not receive the required Single Audit.

Failure to adequately monitor all of its subrecipients impairs MFRLF's ability to evaluate the impact of its subrecipients' activities on overall compliance with program requirements and could result in disallowed costs.

Management should implement procedures to ensure that all subrecipients obtain the required single audits. Management should also implement procedures to review all required single audits from subrecipients, issue a management decision on any relevant findings, and ensure appropriate corrective action is taken as required by OMB Circular A-133. Management concurred with the finding and recommendations and outlined a corrective action plan (see Appendix A).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described previously to be a material weakness.

The Department of Environmental Quality - Municipal Facilities Revolving Loan Fund's response to the finding is attached in Appendix A. We did not audit the response, and, accordingly, we express no opinion on it.

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

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Management's Corrective Action
Plan and Response to the
Finding and Recommendations

BOBBY JINDAL
GOVERNOR



PEGGY M. HATCH
SECRETARY

State of Louisiana
DEPARTMENT OF ENVIRONMENTAL QUALITY
OFFICE OF MANAGEMENT & FINANCE

June 25, 2010

Mr. Daryl G. Purpera, CPA, CFE
Office of Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

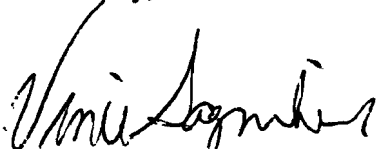
This letter represents the requested official response by this department to the reportable audit finding titled **"Inadequate Subrecipient Monitoring of the Capitalization Grants for Clean Water State Revolving Funds"**

Management of the Department of Environmental Quality concurs with the finding.

Corrective action has been implemented effective May 12, 2010. Procedures have been updated to ensure that we (1) accumulate the amount of disbursements for the reporting fiscal year to ensure that all applicable entities report expenditures as required of OMB A-133 and to (2) set deadlines for submittal and follow-up with the municipality until the report has been submitted or explanation has been provided.

Darryl Serio, Accountant Administrator, is the contact person responsible for ensuring that the corrective action necessary has been completed.

Sincerely,


Vince Sagnibene
Undersecretary