

State of Arkansas Safe Drinking Water Revolving Loan Fund Program

Single Audit Report

June 30, 2015



**State of Arkansas Safe Drinking Water
Revolving Loan Fund Program**

June 30, 2015

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**State of Arkansas Safe Drinking Water
Revolving Loan Fund Program
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015**

Cluster/Program	Federal Agency	CFDA Number	Amount
Capitalization Grants for Drinking Water State Revolving Funds	U.S. Environmental Protection Agency	66.468	\$ 15,967,483
			<u>\$ 15,967,483</u>

Notes to Schedule

1. This schedule includes the federal awards activity of the State of Arkansas Safe Drinking Water Revolving Loan Fund Program (the Program) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Of the federal expenditures presented in this schedule, the State of Arkansas Safe Drinking Water Revolving Loan Fund Program provided federal awards to subrecipients as follows:

Program	CFDA Number	Subrecipient	Amount Provided
Capitalization Grants for Drinking Water State Revolving Funds	66.468	Various	\$ 11,118,147
			<u>\$ 11,118,147</u>

3. Expenditures reflected in CFDA 66.468, Capitalization Grants for Drinking Water State Revolving Funds, include loans to counties, municipalities and other tax-exempt water system entities for construction of new water systems, expansion or repair of existing water systems and/or consolidation of new or existing water systems. The funding source for these loans includes federal grant funds, state match funds and revolving Program funds. The funds are disbursed to the subrecipients after expenses have been incurred as forgiveness of principal and repayable loans. The outstanding loan balance to subrecipients for the year ended June 30, 2015, was \$171,887,064. Total disbursements for new loans made to subrecipients during fiscal year 2015 totaled \$2,314,773. Total loans forgiven during fiscal year 2015 totaled \$1,509,419. Administrative costs associated with the Program for the year ended June 30, 2015, totaled \$4,849,336.

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

The Commissioners of Arkansas
Natural Resources Commission
The Board of Directors of Arkansas
Development Finance Authority (ADFA)
Little Rock, Arkansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the State of Arkansas Safe Drinking Water Revolving Loan Fund Program (the Program), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated October 29, 2015.

Internal Control Over Financial Reporting

Management of the Program is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Program's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Program's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Little Rock, Arkansas
October 29, 2015

**Report on Compliance for Each Major Federal Program, on
Internal Control Over Compliance and on Schedule of Expenditures of Federal
Awards Required by OMB Circular A-133**

Independent Auditor's Report

The Commissioners of Arkansas
Natural Resources Commission
The Board of Directors of Arkansas
Development Finance Authority (ADFA)
Little Rock, Arkansas

Report on Compliance for Each Major Federal Program

We have audited the compliance of the State of Arkansas Safe Drinking Water Revolving Loan Fund Program (the Program) with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015. The Program's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Program's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about the Program's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Program's compliance.

Opinion on Its Major Federal Program

In our opinion, the Program complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Program is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Program's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Program's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Program as of and for the year ended June 30, 2015, and have issued our report thereon dated October 29, 2015, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

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

BKD, LLP

Little Rock, Arkansas
October 29, 2015

**State of Arkansas Safe Drinking Water
Revolving Loan Fund Program
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2015**

7. The Program's major program was:

Cluster/Program	CFDA Number
Capitalization Grants for Drinking Water State Revolving Funds	66.468

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$479,024.

9. The Program qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

**State of Arkansas Safe Drinking Water
Revolving Loan Fund Program
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2015**

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

**State of Arkansas Safe Drinking Water
Revolving Loan Fund Program
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2015**

Reference Number	Summary of Finding	Status
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No matters are reportable.