

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

Single Audit Report

June 30, 2017

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

June 30, 2017

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**State of Arkansas Safe Drinking Water  
Revolving Loan Fund Program  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Environmental Protection Agency/Capitalization Grants for Drinking Water State Revolving Funds	66.468	N/A	\$ 8,133,761	\$ 12,360,368
			<u>\$ 8,133,761</u>	<u>\$ 12,360,368</u>

**State of Arkansas Safe Drinking Water  
Revolving Loan Fund Program  
Notes to the Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017**

**Notes to Schedule**

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the State of Arkansas Safe Drinking Water Revolving Loan Fund Program (the Program) under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Program, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Program.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles in OMB A-110 or contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Program has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.
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 receivable balance from subrecipients for the year ended June 30, 2017, was \$161,354,864. Total federal loan disbursements made during fiscal year 2017 totaled \$8,133,761. Total loans forgiven during fiscal year 2017 totaled \$2,619,748. For the year ended June 30, 2017, the Program received \$4,226,607 in federal funds for administrative costs.

**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, 2017, and the related statements of revenues, expenses and changes in net position 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 31, 2017, which contained an “emphasis of matters” paragraph regarding a definition of the reporting entity.

**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 of the financial statements, 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 or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 31, 2017

**Report on Compliance for Each Major Federal Program;  
Internal Control Over Compliance; and Schedule of Expenditures of  
Federal Awards Required by Uniform Guidance**

**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 the Major Federal Program**

We have audited the State of Arkansas Safe Drinking Water Revolving Loan Fund Program's (the Program) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2017. 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 federal statutes, regulations, contracts and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 the major federal program. However, our audit does not provide a legal determination of the Program's compliance.

### **Opinion on the 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, 2017.

### **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 the 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



## **Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance**

We have audited the financial statements of the Program as of and for the year ended June 30, 2017, and have issued our report thereon dated October 31, 2017, which contained an unmodified opinion on those financial statements and an “emphasis of matters” paragraph regarding a definition of the reporting entity. 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 Uniform Guidance 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 31, 2017

**State of Arkansas Safe Drinking Water  
Revolving Loan Fund Program  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2017**

**Summary of Auditor's Results**

*Financial Statements*

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:  
 Unmodified       Qualified       Adverse       Disclaimer
  
2. The independent auditor's report on internal control over financial reporting disclosed:  
Significant deficiency(ies)?       Yes       None reported  
Material weakness(es)?       Yes       No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?       Yes       No

*Federal Awards*

4. The independent auditor's report on internal control over compliance for the major federal awards program disclosed:  
Significant deficiency(ies)?       Yes       None reported  
Material weakness(es)?       Yes       No
  
5. The opinion expressed in the independent auditor's report on compliance for the major federal award was:  
 Unmodified       Qualified       Adverse       Disclaimer
  
6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?       Yes       No

**State of Arkansas Safe Drinking Water  
Revolving Loan Fund Program  
Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2017**

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 was \$750,000.

9. The Program qualified as a low-risk auditee?  Yes  No

**Findings Required to be Reported by *Government Auditing Standards***

Reference Number	Finding
	No matters are reportable.

**Findings Required to be Reported by the Uniform Guidance**

Reference Number	Finding
	No matters are reportable.

**State of Arkansas Safe Drinking Water  
Revolving Loan Fund Program  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2017**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
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No matters are reportable.