
STATE OF LOUISIANA



DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA

FINANCIAL STATEMENTS
JUNE 30, 2003

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870
www.la.state.la.us

May 26, 2004

Independent Auditor's Report
on the Financial Statements

DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the Louisiana Department of Health and Hospitals, Office of Public Health and Department of Environmental Quality - Drinking Water Revolving Loan Fund, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of management of the Drinking Water 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 Drinking Water Revolving Loan Fund, and do not purport to, and do not, present fairly the financial position of the State of Louisiana, the Louisiana Department of Health and Hospitals, Office of Public Health 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 Health and Hospitals, Office of Public Health and the Louisiana Department of Environmental Quality - Drinking Water Revolving Loan Fund as of June 30, 2003, 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.



DRINKING WATER REVOLVING LOAN FUND

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 26, 2004, on our consideration of the Drinking Water Revolving Loan Fund's internal control over compliance with certain laws and regulations, and our tests of its compliance with those laws and regulations, and on our consideration of the Drinking Water Revolving Loan Fund's internal control over financial reporting. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Louisiana Department of Health and Hospitals, Office of Public Health and Department of Environmental Quality - Drinking Water Revolving Loan Fund's financial statements. The accompanying supplemental information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Drinking Water Revolving Loan Fund. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

LBL:BQD:THC:ss

[DWRLF03]



**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

Statement of Net Assets, June 30, 2003

ASSETS

Current assets:

Cash in state treasury (note 2)	\$3,876,302
Receivables - due from others (note 3)	2,469,949
Total current assets	<u>6,346,251</u>

Noncurrent assets:

Capital assets (net) (note 6)	4,175
Loans receivable (note 4)	30,724,407
Total noncurrent assets	<u>30,728,582</u>
Total assets	<u>37,074,833</u>

LIABILITIES

Current liabilities:

Accounts payable and accruals (note 9)	374,623
Compensated absences payable (note 10)	152
Total current liabilities	<u>374,775</u>

Noncurrent liabilities - compensated
absences payable (note 10)

	<u>42,367</u>
Total liabilities	<u>417,142</u>

NET ASSETS

Invested in capital assets	4,175
Unrestricted	<u>36,653,516</u>

TOTAL NET ASSETS	<u><u>\$36,657,691</u></u>
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The accompanying notes are an integral part of this statement.





**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
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, 2003**

OPERATING REVENUES

Federal funds - set-aside programs	\$2,572,998
Interest earned on loans receivable	972,767
Interest earned on cash in state treasury	59,742
Administrative fees	140,980
Total operating revenues	<u>3,746,487</u>

OPERATING EXPENSES

Set-aside expenses (note 5)	2,657,434
Depreciation expense	42,331
Bond issuance costs (note 10)	76,788
Interest expense	53
Total operating expenses	<u>2,776,606</u>

OPERATING INCOME

969,881

NONOPERATING REVENUES

State appropriations - Department of Health and Hospitals, Office of Public Health	<u>86,899</u>
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INCOME BEFORE CAPITAL CONTRIBUTIONS

1,056,780

Capital contributions

6,505,951

CHANGE IN NET ASSETS

7,562,731

NET ASSETS - BEGINNING OF YEAR (Restated) (note 11)

29,094,960

NET ASSETS - END OF YEAR

\$36,657,691

The accompanying notes are an integral part of this statement.





**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from interest on loans	\$877,554
Cash received from interest on cash in state treasury	62,071
Cash received from administrative fees	127,182
Cash received from repayment of loan principal	819,000
Cash received from allocations for set-aside programs	2,211,897
Cash payments for set-aside programs	(2,298,796)
Cash payments to borrowers	(7,915,894)
Net cash used by operating activities	<u>(6,116,986)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Contributed capital - Environmental Protection Agency	7,987,738
State appropriations	86,899
Proceeds from issuance of bonds	923,212
Principal paid on bonds	(1,000,000)
Bond interest expense	(53)
Net cash provided by noncapital financing activities	<u>7,997,796</u>

Net increase in cash	1,880,810
Cash at beginning of the year	<u>1,995,492</u>
Cash at end of the year	<u><u>\$3,876,302</u></u>

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

Operating income	\$969,881
Adjustments to reconcile operating income to net cash used by operating activities:	
Bond issue costs	76,841
Depreciation expense	42,331
Changes in assets and liabilities:	
(Increase) in accounts receivable	(1,233,083)
(Increase) in loans receivable	(6,175,893)
Decrease in prepayments	28,344
Increase in accounts payable and accrued expenses	205,399
(Decrease) in compensated absences	(2,462)
(Decrease) in deferred revenue	(28,344)
NET CASH USED BY OPERATING ACTIVITIES	<u><u>(\$6,116,986)</u></u>

The accompanying notes are an integral part of this statement.





**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
For the Year Ended June 30, 2003**

INTRODUCTION

The Louisiana Department of Health and Hospitals, Office of Public Health (DHH-OPH) is a department of the State of Louisiana. DHH-OPH was created in accordance with Louisiana Revised Statutes (R.S.) 36:251(c) and 258(b) as a part of the executive branch of government. DHH-OPH is charged with protection of the public health of residents of the State of Louisiana.

The Louisiana Department of Environmental Quality (DEQ) is a department of the State of Louisiana. DEQ was created in accordance with 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 Drinking Water Revolving Loan Fund (DWRLF) program was established pursuant to the federal Safe Drinking Water Act Amendments of 1996 (SDWA). The DWRLF program provides financial assistance to both public and privately owned community water systems and nonprofit noncommunity water systems for projects eligible under the SDWA. The DWRLF program presently operates under R.S. 40:2821-2826. These statutes establish a DWRLF program capitalized by federal grants (Capitalization Grants for Drinking Water State Revolving Fund, CFDA 66.468), by state funds when required or available, and by any other funds generated by the operation of the program. The DWRLF program provides assistance through loans for infrastructure projects and other assistance in the form of set-aside activities for program administration, technical assistance, state program management, and source water protection. All efforts are directed toward improving drinking water quality by assisting systems in providing drinking water that meets established standards and that achieves the goals of the SDWA.

The DHH-OPH is responsible for the operations of the DWRLF program. The department coordinates the implementation and administration of the DWRLF program with DEQ. DHH-OPH is authorized to apply for and accept capitalization grants from the United States Environmental Protection Agency, to establish assistance priorities, to perform oversight and other related activities, and to provide financial administration of the set-aside accounts for the DWRLF program. DEQ administers the loan program and is authorized to provide financial administration of the loan accounts for the DWRLF program.

The DWRLF does not have any full-time employees. However, time spent on the DWRLF program by employees of DHH-OPH and DEQ is captured and the departments are subsequently reimbursed for their salaries and benefits (including compensated absences) as well as other operating expenses of the fund.



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 DHH-OPH and DEQ, both departments within state government. The DWRLF 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 DWRLF 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 cost 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 DWRLF 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 DWRLF 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 DWRLF are federal funds and interest earned on loans. Operating expenses include the set-aside expenses. Nonoperating revenues include state appropriations used for set-aside activities.

E. BUDGETS AND BUDGETARY ACCOUNTING

The DWRLF is budgeted annually by the Louisiana Legislature. The set-aside activities are budgeted as part of the operations of DHH-OPH in the General Appropriations Act. The Ancillary Appropriations Act (Act 43 of the 2002 Regular Session as amended) authorized expenditures of \$34,000,000 for the loan program for fiscal year 2002-2003 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 DWRLF is operated as a direct loan program. The program provides loans and other financial assistance to public water systems for the purpose of planning, constructing, and rehabilitating public water systems.

The program lends federal and state monies directly to public water systems. The federal share is 80% and requires a state matching share of 20%. Recycling of principal and interest repayments from borrowing water systems allows the program to operate in perpetuity thereby benefiting other water systems 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 water systems. Interest earnings on investments and loans can also be used to make additional loans.

The loans made by the DWRLF must be made at or below market interest rate with a repayment period not exceeding 20 years plus an interim construction-financing period. The current loan rate is 3.45% for new water construction/water system rehabilitation projects. In addition, water systems are charged an administrative fee of 0.5% on loan balances payable semiannually.

As evidence of its obligations to pay principal and interest on the loans, each borrower must establish a dedicated source of revenue (or in the case of a privately owned system, demonstrate that there is adequate security) for repayment of the loan [42 USC 300j-12(f)(1)(C)]. For substantially all of these loans, the loan recipient issues bonds that are purchased by DEQ, as administrator of the DWRLF, to secure the repayment of the principal loaned. Principal and interest on the bonds are paid to the DWRLF 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 DWRLF 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 - consists of 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 - consists 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 the Safe Drinking Water Act Amendments of 1996 are recorded as capital contributions.



I. CAPITAL ASSETS

Equipment is valued at historical cost and includes all items valued at or above \$5,000. Depreciation of all exhaustible capital assets of the fund is charged as an expense against operations. Depreciation for financial reporting purposes is computed by the straight-line method over the estimated useful life of the asset, generally 5 to 10 years.

J. COMPENSATED ABSENCES

Employees of DHH-OPH and DEQ working on the DWRLF program accrue and accumulate annual and sick leave at various rates, depending on their years of service, without limitation on the balance that can be accumulated. Upon separation of employment, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay but are not compensated for unused sick leave. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

Certain employees of the departments are eligible to earn compensatory time, as defined by the Department of State Civil Service and the Fair Labor Standards Act. These employees can earn and accumulate one hour for each hour of overtime worked, depending on their position and rate of pay. Generally, the employees are allowed to carry up to 360 hours of accrued compensatory leave from one calendar year to another and may be paid for compensatory leave upon separation of employment.

K. NONCURRENT LIABILITIES

Noncurrent liabilities include estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

L. 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 DWRLF has cash totaling \$3,876,302 at June 30, 2003. 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 DWRLF has a total due from others of \$2,469,949. This total is comprised of the following:



DRINKING WATER REVOLVING LOAN FUND

Due from the federal government - set-aside programs	\$374,623
Due from water systems	2,091,679
Due from state treasury - interest	<u>3,647</u>
Total due from others	<u>\$2,469,949</u>

Of the \$2,091,679 due from water systems, \$1,740,000 is the current portion of the principal due, \$307,154 is loan interest, and \$44,525 is administrative fees on loans.

4. LOANS RECEIVABLE

The DWRLF makes loans to community water systems both privately and publicly owned and nonprofit noncommunity water systems for projects that meet the eligibility requirements of the program. Loans are financed by capitalization grants, state match, and revolving funds. The effective interest rate on loans is 3.45% and must be repaid over 20 years starting two years after the closing date of the loan or one year after the project is completed, whichever occurs first. As of June 30, 2003, four projects are complete and the remaining loan commitment balance (loans authorized less loans disbursed) totals \$16,132,331.

Loans mature at various intervals through November 1, 2024. The scheduled principal payments on loans maturing in subsequent years are as follows:

Year ending June 30:	
2004	\$1,740,000
2005	2,019,500
2006	2,100,000
2007	2,174,500
2008	2,267,500
Thereafter	<u>22,162,907</u>
Total loans receivable	<u>\$32,464,407</u>
Long-term receivable portion	<u>\$30,724,407</u>

Loans to Public Water Systems

As of June 30, 2003, the DWRLF had made loans to 13 public water systems as follows:



NOTES TO THE FINANCIAL STATEMENTS

<u>Water System</u>	<u>Authorized Loan Amount</u>	<u>Loans Outstanding</u>
Town of Baldwin	\$1,250,000	\$1,203,627
Town of Church Point	2,500,000	2,315,000
Colyell Community Water Association	948,600	832,993
Culbertson Water System	669,000	519,430
Ward Two Water District of Livingston Parish	9,000,000	8,695,000
Waterworks District No. 1 of Desoto Parish	2,350,000	2,028,282
Town of Many	3,600,000	1,476,958
City of Oakdale	1,492,412	1,472,412
Village of Quitman	480,000	156,959
City of Shreveport	19,540,000	11,733,653
West Winnsboro Water System	747,100	623,093
City of Natchitoches	3,500,000	1,126,545
Westlake	<u>3,750,000</u>	<u>280,455</u>
Total	<u>\$49,827,112</u>	<u>\$32,464,407</u>

The DWRLF has been awarded five federal grants from the EPA. These grants are available through the EPA's Automated Clearing House Payment System (ACH). These grants are authorized by the Safe Drinking Water Act Amendments of 1996 and require matching funds from the state. The grants are used to fund infrastructure projects of \$70,569,400 to the state of which \$33,870,295 has been drawn, \$27,092,686 for loans and \$6,777,609 (see note 5) for set-aside activities. The state has provided matching funds through the year ended June 30, 2003, of \$7,270,317. The following summarizes the grants awarded, amounts drawn of each grant as of the balance sheet date, and balances available for future loans and set-aside expenses:

<u>Grant Source</u>	<u>Grant Amount (Restated)*</u>	<u>Cumulative Dollar Draws Set-Asides</u>	<u>Cumulative Dollar Draws Loans</u>	<u>Total Cumulative Dollars Drawn as of June 30, 2003</u>	<u>Remaining Grant Dollars Available as of June 30, 2003</u>
FS996968-01-2	\$20,420,300	\$4,307,056	\$16,113,244	\$20,420,300	
FS996968-02-2	9,949,200	1,553,988	8,395,212	9,949,200	
FS996968-03-0	10,427,700	779,072	2,584,230	3,363,302	\$7,064,398
FS996968-04-0	10,837,400	137,493		137,493	10,699,907
FS996968-05-0	<u>18,934,800</u>				<u>18,934,800</u>
	<u>\$70,569,400</u>	<u>\$6,777,609</u>	<u>\$27,092,686</u>	<u>\$33,870,295</u>	<u>\$36,699,105</u>

*Grant amounts were restated to exclude state matching funds as reported in prior years.



DRINKING WATER REVOLVING LOAN FUND

The state has provided its required matching share of federal grant awards through General Fund appropriations and the sale of revenue bonds. Cash contributions from General Fund appropriations and sales of revenue bonds have totaled \$7,270,317. Matching contributions are as follows:

	Cumulative State Match as of <u>June 30, 2002</u>	2003 Contribution <u> </u>	Cumulative State Match as of <u>June 30, 2003</u>
State cash contribution	<u>\$6,347,105</u>	<u>\$923,212</u>	<u>\$7,270,317</u>

5. SET-ASIDE EXPENSES

A portion of the federal grant amounts awarded by the EPA can be specified to fund set-aside activities as follows:

- Up to 4% to provide administrative and technical assistance
- Up to 2% to provide technical assistance to small water systems
- Up to 10% to provide state program management
- Up to 15% to provide assistance in the development and implementation of local drinking water protection initiatives and other state programs

Set-aside expenses are summarized as follows:

	<u>2003</u>	<u>Prior Years</u>	<u>Total</u>
Administration	\$234,504	\$1,194,784	\$1,429,288
Small system technical assistance	184,947	438,780	623,727
State programs	817,998	1,822,774	2,640,772
Source water implementation	<u>1,419,985</u>	<u>748,273</u>	<u>2,168,258</u>
Total	<u>\$2,657,434</u>	<u>\$4,204,611</u>	<u>\$6,862,045</u>

The amount of 2003 set-aside expenses of \$2,657,434 included \$86,899 of expenses paid with state appropriations and a reduction of compensated absence liability of \$2,463.

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the fiscal year ended June 30, 2003, follows:



NOTES TO THE FINANCIAL STATEMENTS

	Balance July 1, 2002	Adjustments	Additions	Deletions	Balance June 30, 2003
Equipment		\$214,995			\$214,995
Less accumulated depreciation		(168,489)	(\$42,331)		(210,820)
	NONE	\$46,506	(\$42,331)	NONE	\$4,175

The capitalization policy of the Louisiana Division of Administration, Office of Statewide Reporting and Accounting Policy, is to include only those assets with an original acquisition cost of \$5,000 or more for depreciable equipment. GASB Statement No. 34 requires the recognition of depreciation on capital assets, resulting in the recognition of accumulated depreciation for current and prior years.

The fund did not previously report equipment. As a result, the beginning balance of capital assets has been adjusted by \$46,506 to include this equipment.

7. PENSION PLANS

Plan Description. All employees of the fund are members of the Louisiana State Employees Retirement System (LASERS). The plan is a cost-sharing, multiple-employer defined benefit pension plan administered by a separate board of trustees. LASERS provides retirement, disability, and survivors' benefits to plan members and beneficiaries. The State of Louisiana guarantees benefits granted by the retirement systems by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the retirement system; employee benefits vest with LASERS after 10 years of service. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The retirement system issues annual publicly available financial reports that include financial statements and required supplementary information for the retirement system. The report may be obtained by writing to the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0600.

Funding Policy. The contribution requirements of plan members and the fund are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 7.5% of covered salaries. The state is required to contribute 14.1% of covered salaries to LASERS. The State of Louisiana, through the annual appropriation to the Office of Public Health, funds the employer contribution. The fund's employer contributions to LASERS for the years ended June 30, 2003, 2002, and 2001 were \$51,543, \$57,982, and \$68,631, respectively, equal to the required contributions for each year.

8. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

As of June 30, 2003, the fund had not incurred any costs associated with postemployment health care and life insurance benefits.



DRINKING WATER REVOLVING LOAN FUND

9. PAYABLES

The following is a summary of payables and accrued expenses at June 30, 2003:

Vendor payables	\$361,999
Accrued salaries and payroll deductions	<u>12,624</u>
Total payables	<u><u>\$374,623</u></u>

10. LONG-TERM LIABILITIES

The following is a summary of bonds and other long-term debt transactions of the fund for the year ended June 30, 2003:

	Balance July 1, 2002	Adjustments	Additions	Reductions	Balance June 30, 2003	Portion Due Within One Year
Bonds payable			\$1,000,000	(\$1,000,000)		
Other liabilities - compensated absences payable		\$44,981	18,037	(20,499)	\$42,519	\$152
Total long-term liabilities	<u>NONE</u>	<u>\$44,981</u>	<u>\$1,018,037</u>	<u>(\$1,020,499)</u>	<u>\$42,519</u>	<u>\$152</u>

Details of all debt incurred during June 30, 2003, follow:

Bonds Payable

The fund is allowed by CFR 35.3550(g)(3), to issue general obligation or revenue bonds to derive the state match. Furthermore, the secretary of DEQ, through a Resolution by Executive Order pursuant to R.S. 30:2011 *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 serial bond issue was called Louisiana Public Facilities Authority Revenue Bonds (Drinking Water Revolving Loan Fund Match Project) Series 2002 and was issued during the fiscal year ending June 30, 2003. This indebtedness was secured solely from the pledge of a 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. The loan agreement between LPFA and DEQ was for a total of \$8,000,000 of which \$1,000,000 was issued during this fiscal year. The \$8,000,000 Indenture of Trust was issued between the LPFA and Hancock Bank of Louisiana. As of June 30, 2003, a total of \$923,212 was generated for matching fund purposes by the issuance of these serial bonds. Bond issue costs of \$76,788 were absorbed by bond proceeds and are, therefore, not required to be charged against the 4% administrative costs allowance in accordance with Drinking Water State Revolving Fund Program



Guidelines. The \$1,000,000 of bond issues were repaid before the end of the fiscal year; therefore, no liability exists at June 30, 2003.

Additional issuance from this series may be issued as needed for future state matching purposes.

Compensated Absences Payable

At June 30, 2003, employees of the fund have accumulated and vested annual and compensatory leave of \$40,074 and \$2,445, respectively. These balances were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

11. NET ASSETS RESTATED

The beginning net assets as reflected on Statement B have been restated to reflect adjustments to account balances at June 30, 2002, as follows:

Net assets, June 30, 2002	\$29,093,435
Capital assets	46,506
Compensated absence liability	<u>(44,981)</u>
 Net assets, July 1, 2002	 <u><u>\$29,094,960</u></u>

12. 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 DWRLF has no lawsuits outstanding at June 30, 2003.

13. SUBSEQUENT EVENTS

Act No. 67 of the 2003 Regular Legislative Session provided for the transfer of authority from DEQ to DHH relative to the administering of the fund. As a result, DHH-OPH assumed administrative responsibility for the fund beginning July 1, 2003.





**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
SUPPLEMENTAL INFORMATION SCHEDULES
As of and for the Year Ended June 30, 2003**

The Drinking Water Revolving Loan Fund is considered one fund, which is comprised of a loan element and an administrative and state match element. The U.S. Environmental Protection Agency requested information on each of these elements. The supplementary information schedules 1 through 3 provide the details requested by the U.S. Environmental Protection Agency.





**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

Schedule of Net Assets by Account, June 30, 2003

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
ASSETS			
Current assets:			
Cash in state treasury	\$3,501,325	\$374,977	\$3,876,302
Receivables - due from others	2,425,071	44,878	2,469,949
Total current assets	5,926,396	419,855	6,346,251
Noncurrent assets:			
Capital assets, net	4,175		4,175
Loans receivable	30,724,407		30,724,407
Total noncurrent assets	30,728,582	NONE	30,728,582
Total assets	36,654,978	419,855	37,074,833
LIABILITIES			
Current liabilities:			
Accounts payable and accruals	374,623		374,623
Compensated absences payable	152		152
Total current liabilities	374,775	NONE	374,775
Noncurrent liabilities - compensated absences payable	42,367		42,367
Total liabilities	417,142	NONE	417,142
NET ASSETS			
Invested in capital assets	4,175		4,175
Unrestricted	36,233,661	419,855	36,653,516
TOTAL NET ASSETS	\$36,237,836	\$419,855	\$36,657,691





**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Schedule of Revenues, Expenses, and
Changes in Fund Net Assets by Account
For the Fiscal Year Ended June 30, 2003**

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
OPERATING REVENUES			
Federal funds - set-aside programs	\$2,572,998		\$2,572,998
Interest earned on loans receivable	972,767		972,767
Interest earned on cash in state treasury	52,735	\$7,007	59,742
Administrative fees		140,980	140,980
Total operating revenues	<u>3,598,500</u>	<u>147,987</u>	<u>3,746,487</u>
OPERATING EXPENSES			
Set-aside expenses	2,657,434		2,657,434
Depreciation expenses	42,331		42,331
Bond issue costs	76,788		76,788
Interest expense	53		53
Total operating expenses	<u>2,776,606</u>	NONE	<u>2,776,606</u>
OPERATING INCOME	821,894	147,987	969,881
NONOPERATING REVENUES			
State appropriations	<u>86,899</u>	NONE	<u>86,899</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	908,793	147,987	1,056,780
Capital contributions	6,505,951		6,505,951
Transfers in	393,845		393,845
Transfers out		(393,845)	(393,845)
CHANGE IN NET ASSETS	7,808,589	(245,858)	7,562,731
NET ASSETS - BEGINNING OF YEAR (Restated)	<u>28,429,258</u>	<u>665,702</u>	<u>29,094,960</u>
NET ASSETS - END OF YEAR	<u><u>\$36,237,847</u></u>	<u><u>\$419,844</u></u>	<u><u>\$36,657,691</u></u>





**DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Schedule of Cash Flows by Account
For the Fiscal Year Ended June 30, 2003**

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
Cash flows from operating activities			
Cash received from interest on loans	\$877,554		\$877,554
Cash received from interest on cash in state treasury	54,357	\$7,714	62,071
Cash received from administrative fees		127,182	127,182
Cash received from repayment of loan principal	819,000		819,000
Cash received from allocations for set-aside programs	2,211,897		2,211,897
Cash payments for set-aside expenses	(2,298,796)		(2,298,796)
Cash payments to borrowers	(7,915,894)		(7,915,894)
Transfers in	393,845	280,073	673,918
Transfers out	(280,073)	(393,845)	(673,918)
Net cash provided (used) by operating activities	<u>(6,138,110)</u>	<u>21,124</u>	<u>(6,116,986)</u>
Cash flows from noncapital financing activities			
Contributed capital - Environmental Protection Agency	7,987,738		7,987,738
State appropriations	86,899		86,899
Proceeds from issuance of bonds	923,212		923,212
Principal paid on bonds	(1,000,000)		(1,000,000)
Bond interest expense	(53)		(53)
Net cash provided by noncapital financing activities	<u>7,997,796</u>	<u>NONE</u>	<u>7,997,796</u>
Net increase in cash	1,859,686	21,124	1,880,810
Cash at beginning of the year	1,641,639	353,853	1,995,492
Cash at end of the year	<u>\$3,501,325</u>	<u>\$374,977</u>	<u>\$3,876,302</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$821,894	\$147,987	\$969,881
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Bond issue costs	76,841		76,841
Depreciation	42,331		42,331
Changes in assets and liabilities:			
(Increase) in accounts receivable	(1,219,989)	(13,094)	(1,233,083)
(Increase) in loans receivable	(6,175,893)		(6,175,893)
Decrease in prepayments	28,344		28,344
Decrease in due from Loan Account		280,073	280,073
(Decrease) in due to Administrative and State Match Account	(280,073)		(280,073)
Increase in accounts payable and accrued expenses	205,399		205,399
(Decrease) in compensated absences	(2,462)		(2,462)
(Decrease) in deferred revenue	(28,344)		(28,344)
Net cash provided (used) by operating activities	<u>(\$6,531,952)</u>	<u>\$414,966</u>	<u>(\$6,116,986)</u>





**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 compliance and internal control over financial reporting 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 Drinking Water Revolving Funds Program in accordance with the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*.







STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870
www.la.state.la.us

May 26, 2004

Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of the Financial Statements
Performed in Accordance With *Government Auditing Standards*

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the financial statements of the Louisiana Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality - Drinking Water State Revolving Loan Fund as of and for the year ended June 30, 2003, and have issued our report thereon dated May 26, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Louisiana Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality - Drinking Water State 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality - Drinking Water Revolving Loan Fund's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



DRINKING WATER REVOLVING LOAN FUND

This report is intended solely for the information and use of management of the Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality and the federal awarding agency 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,



Steve J. Theriot, CPA
Legislative Auditor

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[DWRLF03]





STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870
www.lla.state.la.us

May 26, 2004

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

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana**

Compliance

We have audited the compliance of the Louisiana Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality - Drinking Water State Revolving Loan Fund with the types of compliance requirements that are applicable to the Capitalization Grants for the Drinking Water State Revolving Funds Program (CFDA 66.468) for the year ended June 30, 2003, 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 Health and Hospitals, Office of Public Health and the Department of Environmental Quality. Our responsibility is to express an opinion on the Drinking Water 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 material 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 Drinking Water 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 Drinking Water Revolving Loan Fund's compliance with those requirements.

In our opinion, the Louisiana Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality - Drinking Water Revolving Loan Fund complied, in all material respects, with the requirements referred to previously that are applicable to its Capitalization Grants for Drinking Water State Revolving Funds Program for the year ended June 30, 2003.



DRINKING WATER REVOLVING LOAN FUND

Internal Control Over Compliance

Management of the Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality - Drinking Water 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 Health and Hospitals, Office of Public Health and the Department of Environmental Quality - Drinking Water Revolving Loan Fund's internal control over compliance with requirements that could have a direct and material effect on its Capitalization Grants for Drinking Water State Revolving Funds Program (CFDA 66.468), in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to this federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management of the Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality and the federal awarding agency 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,



Steve J. Theriot, CPA
Legislative Auditor

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