



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

11-25A

FINANCIAL AUDIT

Montana Water Pollution Control and Drinking Water State Revolving Fund Programs

*Department of
Environmental Quality*

*Department of Natural
Resources and Conservation*

*For the Fiscal Year Ended
June 30, 2011*

JANUARY 2012

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FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

January 2012

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the fiscal year 2010-11 financial audit of the Montana Water Pollution Control and Drinking Water State Revolving Fund programs. This report contains no recommendations.

We thank the directors of the Departments of Environmental Quality and Natural Resources and Conservation and their staff for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

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Tom Livers, Deputy Director

Dean Rude, Chief Financial Officer, Financial Services

**Department of
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Mary Sexton, Director

Tricia Schiltz, Chief Financial Officer, Financial Services Office

Anna Miller, Bureau Chief, Loan and Financial Management Bureau

For additional information concerning the Montana Water Pollution
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT

Montana Water Pollution Control and Drinking Water State Revolving Fund Programs

For the Fiscal Year Ended June 30, 2011

JANUARY 2012

11-25A

REPORT SUMMARY

At June 30, 2011, the total outstanding loan principle for the Montana Water Pollution Control and Drinking Water State Revolving Fund programs exceeded \$322 million. Water pollution control loans are funded 83.33 percent by federal Environmental Protection Agency (EPA) capitalization grants, and 16.67 percent by state match. Drinking Water Programs are funded approximately 80 percent by federal EPA capitalization grants, and 20 percent by state match.

Context

The State Revolving Fund (SRF) programs provide reduced interest rate loans for the construction of waste water pollution treatment facilities and drinking water treatment facilities. The programs are jointly administered by the Department of Natural Resources and Conservation and the Department of Environmental Quality. The Department of Natural Resources and Conservation has requested an annual financial audit as required by the federal Environmental Protection Agency.

The SRF programs have loaned funds to many public entities across the state. The five largest borrowers are Billings, Bozeman, Big Sky, Kallispell, and Great Falls. The total outstanding loan principal for these borrowers for the two programs equaled \$98.3 million at June 30, 2011.

Results

This report contains no recommendations and contains an unqualified opinion. Financial statement users can rely on the information in the financial statements and notes.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (11-25A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>

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Chapter I – Introduction

Introduction

We performed a financial audit of the Montana Water Pollution Control State Revolving Fund (WPCSRF) and Drinking Water State Revolving Fund (DWSRF) programs. The objectives of the audit were to:

1. Determine if the programs' financial statements present fairly the financial position and results of operations for the fiscal year ended June 30, 2011.
2. Obtain an understanding of the programs' control systems to the extent necessary to support our audit of the programs' financial statements and, if appropriate, make recommendations for improvements in management and internal controls of the programs.
3. Determine whether the programs complied with selected and applicable laws and regulations.

Background

The WPCSRF Program provides loans at a reduced interest rate to finance construction of publicly owned water pollution control facilities, nonpoint source pollution control projects, and estuary management plans. Water pollution control loans are comprised of federal grants and state match funds and may be financed up to 30 years. As of June 30, 2011, the WPCSRF had \$203,839,897 of outstanding loans, including advances to other funds.

The DWSRF Program provides low interest loans to communities for the construction of drinking water treatment facilities. Drinking water loans are comprised of federal grants and state match funds and may be financed up to 30 years. At June 30, 2011, the DWSRF had \$119,085,905 of outstanding loans.

The programs are jointly administered by the Technical and Financial Assistance Bureau of the Department of Environmental Quality and the Conservation and Resource Development Division of the Department of Natural Resources and Conservation. The State Revolving Fund (SRF) programs do not have any full-time employees. Both programs are charged for time spent on SRF activities by department employees.

State Revolving Fund Program compliance is tested during our biennial financial-compliance audit of the Departments of Environmental Quality and Natural Resources and Conservation. The Department of Environmental Quality report (10-16) contained recommendations for the SRF program related to the application process, project monitoring, and deferred revenue.

Prior Audit Recommendations

We performed the prior audit of the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs for the fiscal year ended June 30, 2010. The report contained no recommendations.

Report on Internal Control and Compliance

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

**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***

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial statements of the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated December 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Montana Water Pollution Control and Drinking Water State Revolving Fund programs is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the programs' 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 programs' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the programs' internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs' financial statements are free of material misstatement, we performed tests of their 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*.

This report is intended solely for the information and use of the Legislative Audit Committee, the management of the Departments of Natural Resources and Conservation and Environmental Quality, the Montana State Legislature, and the federal Environmental Protection Agency and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

December 15, 2011

Independent Auditor's Report and Program Financial Statements

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Combined Balance Sheet—Special Revenue and Debt Service Funds of the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs as of June 30, 2011, and the related Combined Statement of Revenues, Expenditures and Changes in Fund Balances—Special Revenue and Debt Service Funds, for the fiscal year then ended. These financial statements are the responsibility of the management of the programs' management. 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 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 2, the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs' financial statements are intended to present the financial position and changes in financial position of only that portion of the financial reporting entity of the state of Montana that is attributable to the transactions of the programs. They do not purport to, and do not, present fairly the financial position of the state of Montana as of June 30, 2011, or the changes in its financial position for the fiscal year then ended 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 Montana Water Pollution Control and Drinking Water State Revolving Fund Programs as of June 30, 2011, and changes in financial position for the fiscal 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 our report dated December 15, 2011, on our consideration of the programs' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs' financial statements. The Montana Water Pollution Control and Drinking Water Schedule of Revolving and Non-Revolving SRF Programs Balance Sheet—Special Revenue and Debt Service Funds—Regulatory Basis as of June 30, 2011, and the related Schedule of Revolving and Non-Revolving SRF Program Revenues, Expenditures, and Changes in Fund Balances—Special Revenue and Debt Service Funds—Regulatory Basis, for the year then ended are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the programs' financial statements and, in our opinion, is fairly stated in all material respects in relation to the programs' financial statements taken as a whole.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

December 15, 2011

DRINKING WATER

LIABILITIES AND FUND BALANCES

Accounts Payable	\$380				\$13,018	\$1,301			
Loans Payable	21,000				3,000	11,985			35,985
Payroll Payable	23,558				15,501	25,098			64,157
Accrued Liability						18,173			18,173
Due to Other Fund/Business Unit	4,380				62	803			5,245
Deferred Revenue						404			404
Total Liabilities	\$49,318	\$0	\$0	\$0	\$31,581	\$57,764	\$0	\$0	\$138,663
Fund Balances:									
Fund Balance-Restricted	209,316,102	0	5,939,412		132,299,391	0	3,056,199		350,611,104
Total Liabilities and Fund Balances	\$209,365,420	\$0	\$5,939,412		\$132,330,972	\$57,764	\$3,056,199		\$350,749,767

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**MONTANA WATER POLLUTION CONTROL AND DRINKING WATER
STATE REVOLVING FUND PROGRAMS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	WATER POLLUTION CONTROL				DRINKING WATER			
	STATE REVENUE	FEDERAL REVENUE	SPECIAL REVENUE	DEBT SERVICE	STATE REVENUE	FEDERAL REVENUE	SPECIAL REVENUE	DEBT SERVICE
REVENUES:								
Federal Capitalization Grant Revenue		\$6,074	\$11,501,566	\$47,432		\$2,652	\$14,981,976	\$43,190
Interest Income on Investments		(2,453)		(44,465)		8,585		(44,029)
Investment Gains/(Losses)		1,380,491		5,631,769		782,112		3,104,653
Interest Income from Loans		157	13			20	235	425
Other Income								
TOTAL REVENUES		\$1,384,269	\$11,501,579	\$5,634,736		\$793,369	\$14,982,211	\$3,103,814
EXPENDITURES:								
Program Administration/Set-Asides		\$762,718	\$223,767	\$0		\$84,722	\$2,063,000	\$0
TOTAL EXPENDITURES		\$762,718	\$223,767	\$0		\$84,722	\$2,063,000	\$0
Excess Revenues Over (Under) Expenditures		\$621,551	\$11,277,812	\$5,634,736		\$708,647	\$12,919,211	\$3,103,814
OTHER FINANCING SOURCES:								
Bond/RAN/RAN Proceeds					\$1,000,000			\$1,000,000
Operating Transfers In:								
Debt Service Sweep	\$305,849				18,419			324,268
Loan Loss Reserve Sweep	1,798,639				793,009			2,591,648
Federal Capitalization Grants	7,942,451				9,222,259			17,164,710
Investment Earnings Transfers				\$81	39,953			55,703
Total Other Financing Sources		\$10,046,939	\$0	\$81	\$11,073,640	\$0	\$0	\$15,669
								\$15,669
OTHER FINANCING USES:								
Bond/RAN/RAN Principal				\$1,365,000				\$2,865,000
Bond/RAN/RAN Interest				265,014				597,520
Loan Forgiveness			\$3,335,360			\$3,696,953		7,032,313
Operating Transfers Out:								
Debt Service Sweep				305,849				324,268
Loan Loss Reserve Sweep				1,798,639				2,591,648
Federal Capitalization Grants			7,942,451			9,222,259		17,164,710
Investment Earnings Transfers		\$81			\$15,669			55,702
Total Other Financing Uses		\$81	\$11,277,811	\$3,734,502	\$15,669	\$12,919,212	\$2,683,887	\$30,631,161
Excess (deficiency) of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses		\$10,668,409	\$1	\$1,900,315	\$11,766,618	(\$1)	\$435,596	\$24,770,938
FUND BALANCES JULY 1, 2010		198,647,692	0	3,954,929	120,532,774	0	2,620,603	325,755,998
PRIOR YEAR ADJUSTMENTS		2	(1)	84,168	(1)	1	1	84,169
FUND BALANCES JUNE 30, 2011		\$209,316,103	\$0	\$5,939,412	\$132,299,391	\$0	\$3,056,200	\$350,611,105

The accompanying notes to the financial statements are an integral part of this statement.

**MONTANA STATE WATER POLLUTION CONTROL AND
DRINKING WATER STATE REVOLVING FUND PROGRAMS
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

1. Organization of the Programs

The State of Montana Water Pollution Control State Revolving Fund (WPCSRF) program was established pursuant to Title VI of the Federal Water Quality Act of 1987. This federal act established the WPCSRF program to replace the construction grants program. It provides a flexible financing source to loan money at reduced interest rates to finance the construction of publicly owned water pollution control facilities, non-point source pollution control projects, and estuary management plans. Instead of making grants to communities that pay for a portion of building wastewater treatment facilities, the WPCSRF provides for low interest rate loans to finance the entire cost of qualified projects or to refinance debt obligations on projects. The State of Montana first incurred expenditures in the WPCSRF program in state fiscal year (SFY) 1992.

The State of Montana Drinking Water State Revolving Fund (DWSRF) program was established pursuant to the 1996 Amendments to the Federal Safe Drinking Water Act. This federal act established the DWSRF program for states to make loans to community water systems and non-profit non-community water systems. Instead of making grants to communities that pay for a portion of building drinking water treatment facilities, the DWSRF provides for low interest rate loans to finance the entire cost of qualified projects or to refinance debt obligations on projects that began after July 1, 1993. The State of Montana first incurred expenditures in the DWSRF program in SFY 1997.

During SFY 2011, the State Revolving Fund (SRF) programs were impacted by the Federal American Recovery and Reinvestment Act (ARRA). The federal act had the goal to create and preserve jobs through the investment in Water and Wastewater infrastructure. The programs were awarded approximately \$38 million. This \$38 million had to be used on projects with construction contracts in place and the loan closings for the projects had to be completed by February 2010. Montana accomplished these goals. If these goals would not have been met, funds would have been returned to the Federal Government for other states to use. These funds have requirements for additional reporting to the United States (U.S.) Environmental Protection Agency (EPA). Each project has to be in compliance with special requirements. For example, all materials used on the project must be made in America unless a waiver was approved by EPA. There were 67 projects funded from the Federal ARRA funds received. The ARRA Capitalization Grant funds do not require state match on projects and administration, but do require the state to match some set-aside funds in the DWSRF program. The state is using Public Water Supply program charges and fees to provide the required state matching funds.

WPCSRF and DWSRF loan agreements allow up to 30 years for repayment. All repayments of interest and principal must remain in the revolving funds. Both programs are capitalized through EPA grants. States are required to provide 20 percent of the federal capitalization grant as matching funds for DWSRF, and 16.67 percent for WPCSRF, in order to receive a grant. The

State of Montana issues General Obligation (GO) Bonds, Revenue Anticipation Notes (RANs), and Bond Anticipation Notes (BANs) to provide the required state matching funds. RANs and BANs are funded through INTERCAP Loans from the Montana Department of Commerce.

The programs are jointly administered by the Technical and Financial Assistance Bureau of the Department of Environmental Quality (DEQ) and the Conservation and Resource Development Division of the Department of Natural Resources and Conservation (DNRC). The SRF programs do not have any full time employees. Both funds are charged for time spent on SRF activities by department employees. The charges include salaries and benefits of the employees, operating expenses and indirect costs.

2. Summary of Significant Accounting Policies

A. SRF Program Fund Structure

Both programs use Special Revenue and Debt Service funds, as appropriate, to report the financial position and the results of operations. A Special Revenue Fund accounts for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. A Debt Service Fund accounts for resources accumulated for payment of principal and interest on general long-term obligation debt, BANs and RANs. Montana maintains State Special Revenue and Federal Special Revenue Funds. The SRF program revenues and expenses include transactions from each Special Revenue Fund. Special Revenue and Debt Service Funds are considered governmental funds.

A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities.

The Financial statements are intended to present the financial position and changes in financial position of only that portion of the financial reporting entity of the state of Montana that is attributed to the transactions of the program.

B. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. Current financial resources means that, generally, only assets and current liabilities are included on the balance sheet. Operating statements of governmental funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Governmental funds use the modified accrual basis of accounting. The modified accrual basis is the accrual basis adapted to the governmental fund-type measurement focus. Under the modified accrual basis of accounting, revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available and earned within sixty days after the end of the fiscal year to finance expenditures of the fiscal year.

Revenues are deferred if material and received before the normal time of receipt or if received for a particular activity and the expense for that activity has not been incurred prior to fiscal year-end. Expenditures are recognized when the related fund liability is incurred, with the following exceptions:

- 1) principal and interest on long-term debt are recognized when due;
- 2) prepayments are accounted for as expenditures in the period of acquisition;
- 3) inventory items are considered expenditures when purchased.

The Loans Receivable and Allowance for Loan Forgiveness balances reside in the Special Revenue funds for each program. The net of these balances represents the total amount considered collectible.

C. Valuation

The book value of bonds is the “amortized” cost, which represents the original cost, adjusted for premium and discount amortizations where applicable. If bonds are purchased at more than the par value, the difference is called a premium. If they are purchased for less than par value, then difference is called discount. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life, or maturity date of the securities. If the same investment has been purchased several times, the average of the purchase prices is the book value. All investment portfolios presented on the Combined Balance Sheet are at the Tax Cost basis

D. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors or other correcting adjustments from prior periods not otherwise reported as sources or uses of funds.

3. Cash/Cash Equivalents

Cash and cash equivalents consist of funds deposited with US Bank National Association (US Bank) as trustee, and the State of Montana Treasury and include investments categorized as cash equivalents. Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In accordance with the permitted investments as defined in the Indenture of Trust, the cash equivalent funds, invested at the direction of the issuer and held by US Bank, as trustee, are held in a Treasury Obligations Money Market Fund that invests exclusively in short-term U.S. Treasury obligations and repurchase agreements secured by U.S. Treasury obligations. The U.S. Treasury obligations in which the fund invests include U.S. Treasury bonds, notes, and bills, and are backed by the full faith and credit of the United

States government.

Disclosures Relating to Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The investment policy as defined in the Indenture of Trust, and contract with the trustee, does not require collateralization for cash and securities held by the trustee. Securities are registered with the Federal Reserve Bank under "U.S. Bank as trustee for the State of Montana Department of Natural Resources and Conservation." As custodian for the First American money market mutual funds, US Bank holds collateral at 101% of cost. Deposits in a money market savings accounts are FDIC insured for up to the current limit of \$250,000. As of June 30, 2011, \$16,838 of a money market savings account investment insured by the FDIC was in excess of the \$250,000 and was therefore not insured. On July 15, 2011, this uninsured amount was sold and then re-invested in a First American money market mutual fund.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment definition for the programs, as specified in the Indenture of Trust, does not explicitly address interest rate risk. However, the investment definition implicitly limits interest rate risk for cash equivalents by emphasizing liquidity, holding investments to maturity, and narrowly defining the eligible investments. In general, a shorter average maturity for fixed-income securities held in the money market funds means less sensitivity to interest rate changes. The average maturity in the funds as of June 30, 2011, is thirty-five days. The effective duration method result is NA because the program does not have any debt investments at this time.

<u>Investment Type</u>	<u>Book Value</u>	<u>Moody's Rating</u>	<u>Effective Duration</u>
Held by trustee:			
Money market funds	\$34,960,086	Aaa	NA

4. Investments

Power to Invest and Investment Policy

The Board of Examiners of the State of Montana authorizes the sale and issuance of general obligation bonds, RANs, and BANs to provide the state match for the SRF programs through the issuance of an Indenture of Trust. The Board of Examiners is comprised of the Governor, Attorney General and the Secretary of State for the State of Montana. The Indenture of Trust specifies the eligible investments meeting defined rating and risk criteria in which the state may invest. The state invests funds through its trustee bank, US Bank.

Eligible investments are limited, generally, to obligations of, or guaranteed as to principal and interest by the United States of America, or by any agency or instrumentality thereof. A primary investment objective is to purchase investments that mature, or are subject to redemption, on or prior to the date or dates that the department anticipates that money will be required to make payments.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The short- and long-term investments are held in U.S. Treasury bills and notes. U.S. Treasury bills have maturities of one year or less and U.S. Treasury notes have maturities greater than one year from the date of issuance.

Disclosures Relating to Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The permitted investment definition as defined in the Indenture of Trust, and contract with the trustee, does not require collateralization for cash and securities held by the trustee. Securities are registered with the Federal Reserve Bank under "U.S. Bank as trustee for the State of Montana Department of Natural Resources and Conservation."

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The permitted investments, as specified in the Indenture of Trust, do not explicitly address interest rate risk. However, the investment definition implicitly limits interest rate risk by emphasizing liquidity, holding investments to maturity, and narrowly defining the eligible investments.

5. Loans Receivable

Montana operates both SRF programs as direct loan programs. Loans made to communities through the WPCSRF program are funded 83.33 percent by federal EPA capitalization grants, and 16.67 percent by state match. The WPCSRF program also made recycled loans that were disbursed from loan repayment funds. Loans made by the DWSRF program are funded approximately 80 percent by federal EPA capitalization grants, and 20 percent by the state match. The DWSRF program also made recycled loans that were disbursed from loan repayment funds. Loan funds are disbursed to the local borrower agencies by the trustee bank as the local borrower agencies expend funds for the purposes of the loan and request reimbursement from the program. Interest is calculated from the date that funds are disbursed. Typically after the final disbursement has been made, the payment schedule is certified in the loan agreement and adjusted for the actual amounts disbursed. No provision for uncollectible accounts has been made as all loans are current in terms of compliance with the repayment schedules, and management believes that all loans will be repaid according to the terms of the loan agreements.

The ARRA loans issued during SFY 2011 have a loan forgiveness component. If the community meets certain requirements, a portion of the loan is forgiven. The State of Montana recorded the forgivable loans in a federal special revenue fund as Loans Receivable with an offset to Allowance for Loan Forgiveness. When a community has met the requirements, the loan receivable and allowance balances are zeroed out. During SFY 2011, the program forgave \$5,808,550 in loans in the WPCSRF and \$4,853,500 in loans in the DWSRF programs.

The drawn and outstanding principal balance of all loans guaranteed by the WPCSRF program as of June 30, 2011, is \$203,839,897 with an allowance for loan forgiveness of (\$5,649,111) resulting in a net loans receivable balance of \$198,190,786. The total loans receivable in the WPCSRF program includes \$187,678,835 presented as loans receivable (gross) and \$16,161,062 presented as advances to other funds. The advances are inter-fund loans within the DNRC used for the non-point source private loans program.

The drawn and outstanding principal balance of all loans guaranteed by the DWSRF program as of June 30, 2011, is \$119,085,905 with an allowance for loan forgiveness of (\$7,551,500) resulting in a net loans receivable balance of \$111,534,405.

Loans mature at various intervals through July 1, 2041. The scheduled principal payments on loans and advances to other funds maturing in the years following SFY 2011 are as follows:

<u>SFY ending June 30:</u>	<u>WPCSRF Amount</u>	<u>DWSRF Amount</u>
2012	\$ 10,610,066	\$ 5,685,410
2013	13,639,700	7,249,500
2014	13,061,400	7,470,500
2015	13,308,500	7,697,000
2016 and thereafter	147,571,120	83,431,995
Total	\$ 198,190,786	\$ 111,534,405

As of June 30, 2011, the WPCSRF and DWSRF programs had authorized loans to public entities of the State of Montana that in the aggregate exceeded \$345.7 and \$175.5 million, respectively. The outstanding balances of the largest loans in each portfolio are as follows:

Water Pollution Control State Revolving Fund:

<u>Local Agency</u>	<u>Authorized Loan Amount</u>	<u>Outstanding Balance</u>
City of Kalispell	\$ 14,470,000	\$ 13,596,000
City of Great Falls	11,295,267	7,222,000
City of Bozeman	9,573,000	9,573,000
City of Bozeman	9,500,000	9,181,000
City of Helena	9,320,000	7,242,000
City of Billings	7,400,000	5,921,000
Bigfork Water & Sewer	7,284,000	270,537
Big Sky/County Water & Sewer	7,000,000	4,996,000
Big Sky/County Water & Sewer	6,500,000	4,330,862
Big Sky/County Water & Sewer	5,513,000	882,000
Total	\$ 87,855,267	\$ 63,214,399

Drinking Water State Revolving Fund:

<u>Local Agency</u>	<u>Authorized Loan Amount</u>	<u>Outstanding Balance</u>
City of Billings	\$ 17,300,000	\$ 13,743,000
City of Havre II	8,401,000	5,947,000
City of Billings*	7,412,000	4,830,240
City of Whitefish II	5,839,000	2,895,000
City of Laurel	5,250,000	2,323,000
Big Sky WSD*	5,000,000	4,228,447
Great Falls	4,010,000	3,657,000
City of Lewistown	3,549,000	2,116,000
City of East Helena	3,234,000	2,296,000
City of Great Falls	3,000,000	1,791,000
City of Helena	2,850,000	2,252,000
Total	\$ 65,845,000	\$ 46,078,687

* Still drawing funds.

6. Interest Receivable

The interest receivable represents interest owed by borrowers as of June 30, 2011, for the July 1, 2011 payment. It represents the six months of interest accrued from the previous loan payment date of January 1, 2011. Interest receivable balances in the WPCSRF include \$432,235 in the Special Administration fund and \$1,780,551 in the Debt Service and Loan Loss Reserve funds; and in the DWSRF \$228,302 in the Special Administration fund and \$924,025 in the Debt Service and Loan Loss Reserve funds. Interest receivable does not include interest payments received through June 30, 2011, that were due July 1, 2011. Interest payments received through June 30, 2011, amounted to \$1,341,650 for the WPCSRF and \$808,336 for the DWSRF.

7. Bonds Payable

WPCSRF general obligation bonds payable at June 30, 2011, were as follows:

Series 2003D

Payable during the year <u>ending June 30,</u>	Interest <u>Range (%)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	2.00-3.75	\$ 180,000	\$ 14,050	\$ 194,050
2013		185,000	8,665	193,665
2014		190,000	2,945	192,945
Total Cash Requirements		\$ 555,000	\$ 25,660	\$ 580,660

Series 2004A

Payable during the year <u>ending June 30,</u>	Interest <u>Range (%)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	2.00 – 4.50	\$ 705,000	\$ 14,626	\$ 719,626
Total Cash Requirements		\$ 705,000	\$ 14,626	\$ 719,626

Series 2005G

Payable during the year ending June 30,	Interest Range (%)	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	4.00 – 4.75	\$ 495,000	\$ 69,691	\$ 564,691
2013		135,000	60,390	195,390
2014		140,000	54,890	194,890
2015		145,000	48,828	193,828
2016		150,000	42,190	192,190
2017-2021		<u>490,000</u>	<u>74,475</u>	<u>564,475</u>
Total Cash Requirements		\$ 1,555,000	\$ 350,464	\$ 1,905,464

Series 2010C

Payable during the year ending June 30,	Interest Range (%)	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	2% - 4%	\$ 465,000	\$ 189,638	\$ 654,638
2013		480,000	180,188	660,188
2014		490,000	170,488	660,488
2015		500,000	160,588	660,588
2016		510,000	147,938	657,938
2017-2021		2,800,000	479,281	3,279,281
2022-2026		<u>1,140,000</u>	<u>102,963</u>	<u>1,242,963</u>
Total Cash Requirements		\$ 6,385,000	\$ 1,431,084	\$ 7,816,084

TOTAL GENERAL OBLIGATION DEBT - WPCSRF

Payable during the year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,845,000	\$ 288,005	\$ 2,133,005
2013	800,000	249,243	1,049,243
2014	820,000	228,323	1,048,323
2015	645,000	209,416	854,416
2016	660,000	190,128	850,128
2017-2021	3,290,000	553,756	3,843,756
2022-2026	<u>1,140,000</u>	<u>102,963</u>	<u>1,242,963</u>
Total Cash Requirements	\$ 9,200,000	\$ 1,821,834	\$ 11,021,834

DWSRF general obligation bonds payable at June 30, 2011, were as follows:

Series 1998F

Payable during the year ending June 30,	Interest Range (%)	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	3.60 – 4.85	\$ 170,000	\$ 38,723	\$ 208,723
2013		175,000	30,959	205,959
2014		185,000	22,722	207,722
2015		195,000	13,934	208,934
2016		<u>200,000</u>	<u>4,700</u>	<u>204,700</u>
Total Cash Requirements		\$ 925,000	\$ 111,038	\$ 1,036,038

Series 2003E

Payable during the year ending June 30,	Interest Range (%)	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	2.00 – 3.75	\$ 110,000	\$ 8,460	\$ 118,460
2013		110,000	5,215	115,215
2014		<u>115,000</u>	<u>1,783</u>	<u>116,783</u>
Total Cash Requirements		\$ 335,000	\$ 15,458	\$ 350,458

Series 2005F

Payable during the year ending June 30,	Interest Range (%)	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	4.00 – 4.75	\$ 235,000	\$ 122,600	\$ 357,600
2013		245,000	113,000	358,000
2014		255,000	103,000	358,000
2015		265,000	91,937	356,937
2016		275,000	79,788	354,788
2017-2021		<u>1,590,000</u>	<u>187,037</u>	<u>1,777,037</u>
Total Cash Requirements		\$ 2,865,000	\$ 697,362	\$ 3,562,362

Series 2010B

Payable during the year ending June 30,	Interest Range (%)	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	2.00-4.00	\$ 410,000	\$ 155,350	\$ 565,350
2013		420,000	147,050	567,050
2014		430,000	138,550	568,550
2015		440,000	129,850	569,850
2016		450,000	118,700	568,700
2017-2021		2,470,000	363,594	2,833,594
2022-2026		<u>710,000</u>	<u>56,031</u>	<u>766,031</u>
Total Cash Requirements		\$ 5,330,000	\$ 1,109,125	\$ 6,439,125

Series 2011A RAN

<u>Payable during the year ending June 30,</u>	<u>Interest Range (%)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	1.95%	\$ 282,000	\$ 6,886	\$ 288,886
2013	variable	0	0	0
2014		<u>718,000</u>	<u>35,002</u>	<u>753,002</u>
Total Cash Requirements		\$ 1,000,000	\$ 41,888	\$ 1,041,888

TOTAL GENERAL OBLIGATION DEBT - DWSRF

<u>Payable during the year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	1,207,000	332,019	1,539,019
2013	950,000	296,224	1,246,224
2014	1,703,000	301,057	2,004,057
2015	900,000	235,721	1,135,721
2016	925,000	203,188	1,128,188
2017-2021	4,060,000	550,631	4,610,631
2022-2026	<u>710,000</u>	<u>56,031</u>	<u>766,031</u>
Total Cash Requirements	\$ 10,455,000	\$ 1,974,871	\$ 12,429,871

8. Fund Balance

All of the fund balances in the WPCSRF and DWSRF programs are restricted. The State of Montana early implemented Governmental Accounting Standards Board (GASB) Statement No. 54 which re-classified the fund balance accounts. This early implementation was effective for fiscal year ending June 30, 2010. The old classifications were Net Assets, Fund Balance Designated, Reserved for Long-Term Notes/Loans and Reserved for Long-Term Advances. The new classification of Fund Balance Restricted is used in the SRF program because the use of resources is restricted by parties outside the state, such as EPA and the bond holders.

9. Program Capitalization

The WPCSRF and DWSRF programs are capitalized by grants from the EPA and matching funds from the State of Montana. All grant funds drawn are recorded as revenue. As of June 30, 2011, the EPA has awarded to the State of Montana capitalization grants of \$147,382,665 for the WPCSRF program and \$19,239,100 for the WPCSRF-ARRA program. In the WPCSRF program, \$340,377,386 has been drawn from federal and state funds for loans and administrative expenses. As of June 30, 2011, the EPA has awarded to the State of Montana capitalization grants of \$133,193,788 for the DWSRF program and \$19,500,000 for the DWSRF-ARRA program. In the DWSRF program, \$173,052,654 has been drawn from federal and state funds for loans and administrative expenses. Montana has issued GO bonds, RANs, and BANs totaling \$30,690,000 for use as state matching funds for the WPCSRF program and \$21,595,000 for use as state matching funds in the DWSRF program.

10. Federal Capitalization Grant Revenue

Actual draws of federal funds differ from the amount of federal capitalization grant revenue reported on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances. This occurs because state accounting policy requires federal special revenue funds reflect a zero fund balance at fiscal year-end (with the exception of "A" accruals). Consequently, at fiscal year-end, if a positive fund balance exists, deferred revenue is recorded and if a negative fund balance exists, an accounts receivable is established and revenue is recorded to zero the fund balance.

The following is a reconciliation of federal revenues reported on the financial statements to federal cash actually drawn during the state fiscal year:

<u>WPCSRF</u>	
Federal Revenue - Combined Statement	\$11,501,566
Adjustment Due From Federal Govt SFY 2010	6,235
Adjustment Deferred Revenue SFY 2010	0
Adjustment Due From Federal Govt SFY 2011	0
Adjustment Deferred Revenue SFY 2011	1
Other Adjustments	(1)
Total Federal Draws	\$11,507,801

<u>DWSRF</u>	
Federal Revenue - Combined Statement	\$14,981,976
Adjustment Due From Federal Govt SFY 2010	88,916
Adjustment Deferred Revenue SFY 2010	(25,881)
Adjustment Due From Federal Govt SFY 2011	(57,357)
Adjustment Deferred Revenue SFY 2011	404
Other Adjustments	(199)
Total Federal Draws	\$14,987,859

11. Interest Income on Investments

This revenue represents interest earnings on investments within the funds. All assets of the funds are fully invested by the trustee, to the degree possible, in investment vehicles. The investments range from U.S. Treasury obligation money market funds to long-term government securities. In some funds, interest income is earned in one fund but transferred to another fund in accordance with terms of the bond indenture.

12. Investment Gains/(Losses)

This revenue represents amortized (premiums) and accreted discounts recognized monthly and at the disposal of government securities.

13. Interest Income from Loans

This revenue represents interest earnings from loan repayments made by borrowers. A typical loan carries an interest rate of 4%; however, during fiscal year 2004 the rate was decreased to 3.75% for new loans and the lower rate was continued through fiscal year 2011. The 3.75% interest rate is comprised of a loan interest rate of 2.00%, as well as a 1.00% Loan Loss Reserve fee and a 0.75% Special Administration fee. The interest income for each of these components totaled \$3,898,457, \$1,733,312 and \$1,380,492, respectively, for the WPCSRF program; and \$2,229,495, \$875,158, and \$782,112, respectively, for the DWSRF program. Disadvantaged communities can receive loans with an interest rate of 2.75% because no Loan Loss Reserve fee is levied.

14. Program Administration and Set-Aside Funds

This expenditure represents costs incurred by DEQ and DNRC to administer the SRF programs. They are reflected in special revenue funds (both federal grant funds and state funds are used). Program Administration appears under the Resource/recreation/environment function in the State of Montana Comprehensive Annual Financial Report (CAFR).

The DWSRF program includes program administration as well as several “sub-programs”, called set-asides, which states can elect. The following details what percentage of capitalization grants a State may use for administration and set-asides:

- up to 4 percent of its capitalization grants to administer the DWSRF and provide technical assistance to public water systems;
- up to 2 percent of its grants to provide assistance to small public water systems;
- up to 10 percent of its grants for state program management activities, including administration of the state public water system supervision program, administration of the source water protection program, development and implementation of the capacity development and operator certification programs;
- up to 15 percent of its grants to assist in the development and implementation of local drinking water protection initiatives and other State programs.

DWSRF Program Administration/Set-Asides Detail:

Administration - EPA Grants	\$783,515
Administration - State Funds	84,722
Technical Assistance	169,205
State Program Management	978,676
Local Assistance	131,604
Total Administration and Set-Asides	\$2,147,722

In the WPCSRF program, there are no set-aside funds available.

WPCSRF Program Administration Detail:

Administration - EPA Grants	\$223,767
Administration - State Funds	762,718
Total Administration	\$986,485

15. Other Financing Sources and Uses

The Debt Service Sweep transfer represents loan interest amounts received that exceeds the debt service requirements. The balances remaining in Debt Service accounts are transferred to Investment accounts in State Special Revenue funds. Both funds are required by the SRF program. This occurs after payments are made to the bondholders on July 15 of each year. In the Arbitrage Certificate, this activity is termed a Debt Service Sweep.

The Loan Loss Reserve Sweep transfer represents cash in excess of the reserve requirement that is transferred from the Loan Loss Reserve accounts to the Principal accounts per the trust indentures. The Loan Loss Reserve funds are not required by the SRF program, but the state elected to have these funds to account for these transactions separately.

The Special Administration Account transfer represents the transfer of funds from the Special Administration accounts to the Principal accounts per the trust indenture. This transfer is only visible on the Regulatory Basis Financial Statements. The entries are eliminated on the GAAP Financial Statements

The Federal Capitalization Grant transfer represents the transfer of EPA grant funds from federal special revenue funds to the Loan Accounts in state special revenue funds to fund loans that will be repaid.

The Investment Earnings Transfers represent the transfers of the balances of earnings to various accounts within each SRF program per the trust indenture.

16. Long-Term Debt

During SFY 2011, the program issued a RAN in the DWSRF Program for \$1,000,000 of which \$850,000 had been drawn as of June 30, 2011. These funds were used for Drinking Water project loans match.

17. Subsequent Events

In October 2011, RANs were issued in both the WPCSRF and DWSRF programs for \$1,900,000 and \$1,100,000 respectively. These RANs are to match EPA Capitalization Grant funds.

**MONTANA WATER POLLUTION CONTROL AND DRINKING WATER
SCHEDULE OF REVOLVING AND NON-REVOLVING SRF PROGRAMS
BALANCE SHEET
SPECIAL REVENUE AND DEBT SERVICE FUNDS
REGULATORY BASIS
JUNE 30, 2011**

	WATER POLLUTION CONTROL SPECIAL REVENUE		WATER POLLUTION CONTROL DEBT SERVICE FUND		DRINKING WATER SPECIAL REVENUE		DRINKING WATER DEBT SERVICE FUND		(MEMORANDUM ONLY) TOTAL
	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	
ASSETS									
Cash and Cash Equivalents	\$9,752,516	\$883,892	\$2,619,212	\$316,243	\$19,517,455	\$901,217	\$745,465	\$225,354	\$34,961,354
Interest Receivable		432,235	1,212,606	567,945		228,302	640,772	283,253	3,365,113
Due from Other Fund/Business Unit				4,184					4,184
Due from Federal Government									57,357
Investments	105,991				57,357			1,161,355	2,486,568
Bond Proceed Receivable				1,219,222					150,000
Loans Receivable	\$187,678,835								293,564,129
Less Allowance for Loan Forgiveness	5,649,111				111,534,405				16,161,062
Advances to Other Funds									
Total Assets	\$208,049,293	\$1,316,127	\$3,831,818	\$2,107,594	\$131,259,217	\$1,129,519	\$1,386,237	\$1,669,962	\$350,749,767

LIABILITIES AND FUND BALANCES

Liabilities:									
Accounts Payable		\$380			\$14,301	\$18			\$14,699
Loans Payable	\$10,000	11,000			11,985	3,000			35,985
Payroll Payable		23,558			25,098	15,501			64,157
Accrued Liability					18,173				18,173
Due to Other Fund/Business Unit		4,380			803	62			5,245
Deferred Revenue					404				404
Total Liabilities	\$10,000	\$39,318	\$0	\$0	\$70,764	\$18,581	\$0	\$0	\$138,663
Fund Balances									
Fund Balance-Restricted	208,039,293	1,276,809	3,831,818	2,107,594	131,188,453	1,110,938	1,386,237	1,669,962	350,611,104
Total Liabilities and Fund Balances	\$208,049,293	\$1,316,127	\$3,831,818	\$2,107,594	\$131,259,217	\$1,129,519	\$1,386,237	\$1,669,962	\$350,749,767

This schedule is prepared on a regulatory basis of presentation, rather than a GAAP (1) basis, as requested by the Environmental Protection Agency (EPA) for the Water Pollution Control and Drinking Water State Revolving Fund (SRF) Programs. This presentation separates certain regulated Revolving Fund (within the Fund) and Non-Revolving Fund (outside the Fund) activity by fund type. All proceeds from the EPA Capitalization Grant, corresponding state matching funds, and loan principal and interest repayments must be deposited into the Revolving Fund under Title VI of the Clean Water Act and Title XIV of the Safe Drinking Water Act. Other proceeds, including Administration and Origination Fees and Loan Loss Reserves are deposited into the Non-Revolving Fund and may be used for other water quality purposes under the federal acts mentioned above.

(1) Generally Accepted Accounting Principles (GAAP).

**MONTANA WATER POLLUTION CONTROL AND DRINKING WATER
SCHEDULE OF REVOLVING AND NON-REVOLVING SRF PROGRAM
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE AND DEBT SERVICE FUNDS**

REGULATORY BASIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	WATER POLLUTION CONTROL SPECIAL REVENUE		WATER POLLUTION CONTROL DEBT SERVICE FUND		DRINKING WATER SPECIAL REVENUE		DRINKING WATER DEBT SERVICE FUND		(MEMORANDUM ONLY)
	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	TOTAL
REVENUES:									
Federal Capitalization Grant Revenue	\$11,501,566				\$14,981,976				\$26,483,542
Interest Income on Investments	5,874	\$200	\$700	\$46,732	2,404	\$248	\$99	\$43,091	99,348
Investment Gains/(Losses)	(2,453)			(44,465)	8,585			(44,029)	(62,362)
Interest Income from Loans		1,380,491	3,898,457	1,733,312		782,112	2,229,495	875,158	10,899,025
Other Income	94	76			235	20			425
Total Revenues	\$11,505,081	\$1,380,767	\$3,899,157	\$1,735,579	\$14,993,200	\$782,380	\$2,229,594	\$874,220	\$37,399,978
EXPENDITURES:									
Program Administration/Set-Asides	\$310,990	\$675,495	\$0	\$0	\$2,063,000	\$84,722	\$0	\$0	\$3,134,207
Total Expenditures	\$310,990	\$675,495	\$0	\$0	\$2,063,000	\$84,722	\$0	\$0	\$3,134,207
Excess Revenues Over/(Under) Expenditures	\$11,194,091	\$705,272	\$3,899,157	\$1,735,579	\$12,930,200	\$697,658	\$2,229,594	\$874,220	\$34,265,771
OTHER FINANCING SOURCES:									
Bond/RAN/RAN Proceeds					\$1,000,000				\$1,000,000
Operating Transfers In:									
Debt Service Sweep	\$305,849				18,419				324,268
Loan Loss Reserve Sweep	1,798,639				793,009				2,591,648
Special Administration Account Sweep	1,700,000				700,000				2,400,000
Investment Earnings Transfers			\$81		39,953		\$15,669		55,703
Total Other Financing Sources	\$3,804,488	\$0	\$81	\$0	\$2,551,381	\$0	\$15,669	\$0	\$6,371,619
OTHER FINANCING USES:									
Bond/RAN/BAN Principal			\$1,365,000				\$1,500,000		\$2,865,000
Bond/RAN/BAN Interest			265,014				332,506		597,520
Loan Forgiveness	\$3,335,360				\$3,696,953				7,032,313
Operating Transfers Out:									
Debt Service Sweep			305,849	\$1,798,639			18,419	\$793,009	324,268
Loan Loss Reserve Sweep		\$1,700,000				\$700,000			2,591,648
Special Administration Account Sweep									2,400,000
Investment Earnings Transfers	81				15,669			39,953	55,702
Total Other Financing Uses	\$3,335,441	\$1,700,000	\$1,935,863	\$1,798,639	\$3,712,622	\$700,000	\$1,850,925	\$832,962	\$15,866,451
Excess (deficiency) of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	\$11,663,137	(\$994,728)	\$1,963,375	(\$63,059)	\$11,768,959	(\$2,342)	\$394,338	\$41,258	\$24,770,938
FUND BALANCES JULY 1, 2010	196,376,156	2,271,539	1,784,278	2,170,652	119,419,494	1,113,281	991,899	1,628,704	325,756,003
PRIOR YEAR ADJUSTMENTS	(0)	(1)	84,166	1	(0)	(1)	0	(0)	84,164
FUND BALANCES JUNE 30, 2011	\$208,039,293	\$1,276,810	\$3,831,819	\$2,107,694	\$131,188,453	\$1,110,938	\$1,386,237	\$1,669,962	\$350,611,105

This schedule is prepared on a regulatory basis of presentation, rather than a GAAP (1) basis, as requested by the Environmental Protection Agency (EPA) for the Water Pollution Control and Drinking Water State Revolving Fund (SRF) Programs. This presentation separates certain regulated Revolving Fund (within the Fund) and Non-Revolving Fund (outside the Fund) activity by fund type. All proceeds from the EPA Capitalization Grant, corresponding state matching funds, and loan principal and interest repayments must be deposited into the Revolving Fund under Title VI of the Clean Water Act and Title XIV of the Safe Drinking Water Act. Other proceeds, including Administration and Origination Fees and Loan Loss Reserves are deposited into the Non-Revolving Fund and may be used for other water quality purposes under the federal acts mentioned above.

(1) Generally Accepted Accounting Principles (GAAP).

DEPARTMENT OF
ENVIRONMENTAL QUALITY

DEPARTMENT OF
NATURAL RESOURCES
AND CONSERVATION

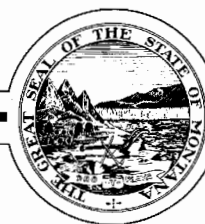
DEPARTMENT RESPONSE

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION

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D.N.R.C.



BRIAN SCHWEITZER, GOVERNOR

1625 ELEVENTH AVENUE

STATE OF MONTANA

DIRECTOR'S OFFICE (406) 444-2074
FAX NUMBER (406) 444-2684

PO BOX 201601
HELENA, MONTANA 59620-1601

January 5, 2012

Torri Hunthausen
Legislative Auditor
Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705

Dear Mrs. Hunthausen:

We have received and reviewed the financial audit of the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs for the fiscal year ended June 30, 2011. We are pleased with the unqualified opinion and wish to thank your staff for the professionalism and courtesy with which the audit was conducted.

Sincerely,

Mary Sexton
Director, DNRC

Patricia Schiltz
Chief Financial Officer, DNRC

Richard Oppen
Director, DEQ

Dean Rude
Chief Financial Officer, DEQ

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