



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

13-25A

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, 2013*

MARCH 2014

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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) licenses.

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. 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, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. 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
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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

March 2014

The Legislative Audit Committee
of the Montana State Legislature:

This is our report resulting from the fiscal year 2013 financial audit of the Montana Water Pollution Control and Drinking Water State Revolving Fund programs. We focused our audit effort on reviewing the financial statements and notes. This included reviewing the financial statement preparation process, comparing the activity on the financial statements to previous years, and reviewing the notes for consistency with the financial statements and supporting documentation. 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

**Department of
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Tom Livers, Deputy Director

Dean Rude, Chief Financial Officer, Financial Services

**Department of
Natural Resources
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John Tubbs, Director

Tricia Schiltz, Chief Financial Officer, Financial Services Office

Anna Miller, Bureau Chief, Loan & Financial Management Bureau

For additional information concerning the Montana Water Pollution Control and Drinking Water State Revolving Fund programs, contact:

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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, 2013

MARCH 2014

13-25A

REPORT SUMMARY

State Revolving Fund capitalization grants provide Montana with a long term source of financing for drinking water infrastructure and water quality management activities. The grants, received from the Environmental Protection Agency, are loaned to local Montana communities for eligible projects, and loan repayments are used to make new loans. The Environmental Protection Agency requires an annual audit of the programs.

Context

The State Revolving Fund programs include the Water Pollution Control State Revolving Fund (WPCSRF) and the Drinking Water State Revolving Fund (DWSRF). These programs provide low interest loans for the planning, design, and construction of water pollution control and drinking water projects. The programs are jointly administered by the Department of Environmental Quality (DEQ) and the Department of Natural Resources and Conservation (DNRC).

Through June 30, 2013, the WPCSRF and the DWSRF programs authorized loans to public entities, in the aggregate, in excess of \$374.2 million and \$216.2 million, respectively. At June 30, 2013, the net outstanding loan balances were approximately \$184.5 million in the WPCSRF and \$123.6 million in the DWSRF.

The WPCSRF program works to maintain, restore, and enhance the chemical, physical, and biological integrity of the state's waters for the benefit of the overall environment and the protection of public health. The WPCSRF

program is funded 83.33 percent by federal Environmental Protection Agency (EPA) capitalization grants and 16.67 percent by state match.

The DWSRF program provides financial and technical assistance to help public water supplies achieve and maintain compliance with federal and state drinking water laws and standards for the protection and enhancement of Montana's public drinking water. The DWSRF program is funded 80 percent by federal EPA capitalization grants and 20 percent by state match.

Results

We focused our audit effort on reviewing the financial statements and notes. This included reviewing the financial statement preparation process, comparing the activity on the financial statements to previous years, and reviewing the notes for consistency with the financial statements and supporting documentation. We confirmed selected loan balances with loan recipients and reviewed documentation

(continued on back)

related to the Revenue Anticipation Note issuance. We also verified program financial information reconciled to statements provided by the program's trustee bank and determined program compliance with selected, applicable state and federal laws and regulations. Our audit did not result in any recommendations. We issued an unmodified opinion on 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 (13-25A) 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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 Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

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 whether the programs' financial statements and notes present fairly the financial position and results of operations for the fiscal year ended June 30, 2013.
2. Determine whether supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.
3. 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.
4. Determine whether the programs complied with selected and applicable state and federal laws and regulations that are direct and material to the determination of amounts on the financial statements.

We addressed these objectives by focusing our audit effort on reviewing the financial statements and notes. This included reviewing the financial statement preparation process, comparing the activity on the financial statements to previous years, and reviewing the notes for consistency with the financial statements and supporting documentation. We confirmed selected loan balances with loan recipients and reviewed documentation related to the Revenue Anticipation Note issuance. We also verified program financial information reconciled to statements provided by the programs' trustee bank and determined program compliance with selected, applicable state and federal laws and regulations.

The Environmental Protection Agency (EPA) requires us to conduct our audit in accordance with *Government Audit Standards*, which includes issuance of our report on Internal Control Over Financial Reporting and on Compliance and Other Matters on page A-1.

Background

The WPCSRF program provides a flexible financing source to loan money at reduced interest rates to finance the construction of publicly owned water pollution control facilities, projects, and 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, 2013, the net outstanding balance of loans receivable for the WPCSRF program was \$184,472,106.

The DWSRF program was established for states to provide low interest rate loans to finance the entire cost of qualified projects or to refinance debt obligation loans to community water systems and nonprofit noncommunity water systems. Drinking water loans are comprised of federal grants and state match funds and may be financed up to 30 years. As of June 30, 2013, the net outstanding balance of loans receivable for the DWSRF program was \$123,556,844.

The State Revolving Fund (SRF) programs operate 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. Loans made by the DWSRF program are funded 80 percent by Federal EPA capitalization grants, and 20 percent by the state match.

The SRF programs have issued General Obligation (GO) bonds, Revenue Anticipation Notes (RANs), and Bond Anticipation Notes (BANs) totaling \$35,540,000 for use as state matching funds for the WPCSRF program and \$23,645,000 for use as state matching funds in the DWSRF program. As of June 30, 2013, the DWSRF and WPCSRF programs had a combined total of \$15,530,000 in GO bonds outstanding.

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.

State Revolving Fund program was tested during our biennial financial-compliance audit of the Departments of Environmental Quality (12-16) and Natural Resources and Conservation (12-17) for the two fiscal years ended June 30, 2012. We considered the results of this testing when designing the work to be performed for this audit.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

**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, in accordance with the auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs (programs) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the programs' financial statements, and have issued our report thereon dated February 27, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the programs' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the programs' internal control. Accordingly, we do not express an opinion on the effectiveness of the programs' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 27, 2014

Independent Auditor's Report and Programs' Financial Statements

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Statement of Combined Balance Sheet - Special Revenue and Debt Service Funds of the Montana Water Pollution Control and Drinking Water State Revolving Fund programs, administered by the Departments of Environmental Quality and Natural Resources and Conservation, as of June 30, 2013, 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, and the related notes which collectively comprise the programs' financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *Governmental 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the programs' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the programs' internal control, and accordingly, we express no such opinion. An

audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013, and the changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2A, the financial statements of the Montana Water Pollution Control and Drinking Water State Revolving Fund programs present the financial position and changes in financial position of only that portion of the reporting entity of the state of Montana that is attributable to the transactions of the programs' special revenue and debt service funds. They do not purport to, and do not, present fairly the financial position of the state of Montana as of June 30, 2013, 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. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the 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, 2013, 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 purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2014, on our consideration of the Montana Water Pollution Control and Drinking Water State Revolving Fund programs' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the programs' internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 27, 2014

MONTANA WATER POLLUTION CONTROL AND DRINKING WATER
STATE REVOLVING FUND PROGRAMS
COMBINED BALANCE SHEET
SPECIAL REVENUE AND DEBT SERVICE FUNDS
JUNE 30, 2013

WATER POLLUTION CONTROL

	WATER POLLUTION CONTROL			DRINKING WATER		
	STATE SPECIAL REVENUE	FEDERAL SPECIAL REVENUE	DEBT SERVICE	STATE SPECIAL REVENUE	FEDERAL SPECIAL REVENUE	DEBT SERVICE
ASSETS						
Cash and Cash Equivalents	\$33,117,918		\$3,543,041	\$8,207,301		\$1,705,280
Interest Receivable on Loans	421,408		1,297,729	294,417		836,052
Due From Other BU or Fund	103					
Due from Federal Government						
Investments	6,625,530			14,647,028	\$60,332	
Bond Proceed Receivable	1,400,000					
Loans Receivable	\$172,935,853	\$2,883,500			\$4,301,800	
Less Allowance for Loan Forgiveness	0	2,883,500	\$0	\$123,556,844	4,301,800	
Advances to Other Funds	11,536,253			0		0
Total Assets	\$226,037,065		\$4,840,770	\$146,705,591	\$60,332	\$2,541,332

LIABILITIES AND FUND BALANCES

Liabilities:		
Accounts Payable		\$83
Loans Payable		
Payroll Payable	\$19,010	15,629
Accrued Liability		
Due to Other BU or Fund	15,756	1,046
Deferred Revenue		
Total Liabilities	\$34,766	\$1,088

Fund Balances:

Fund Balance-Restricted	226,002,299	0	4,839,682
Total Liabilities and Fund Balances	\$226,037,065	\$0	\$4,840,770

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

DRINKING WATER

	DRINKING WATER			DRINKING WATER		
	STATE SPECIAL REVENUE	FEDERAL SPECIAL REVENUE	DEBT SERVICE	STATE SPECIAL REVENUE	FEDERAL SPECIAL REVENUE	DEBT SERVICE
LIABILITIES						
Accounts Payable		\$22,925	\$23,009			
Loans Payable		4,749	4,749			
Payroll Payable		29,402	64,041			
Accrued Liability		2,815	2,815			
Due to Other BU or Fund		284	18,174			
Deferred Revenue		158	158			
Total Liabilities		\$60,332	\$112,945			
Fund Balances:						
Fund Balance-Restricted		0	2,541,332			380,072,145
Total Liabilities and Fund Balances		\$60,332	\$2,541,332			\$380,185,089

**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, 2013**

WATER POLLUTION CONTROL

	STATE SPECIAL REVENUE	FEDERAL REVENUE	SPECIAL DEBT SERVICE
REVENUES:			
Federal Capitalization Grant Revenue	\$90,293	\$3,760,550	\$18,470
Interest Income on Investments	(79,268)		(5,951)
Investment Gains/(Losses)	1,362,534		4,840,721
Interest Income from Loans			
Other Income			
TOTAL REVENUES	\$1,373,559	\$3,760,550	\$4,853,240

EXPENDITURES:

Program Administration/Set-Asides

TOTAL EXPENDITURES

Excess Revenues Over (Under) Expenditures

OTHER FINANCING SOURCES:

Bond/RAN/RAN Proceeds

Operating Transfers In:

Debt Service Sweeps

Loan Loss Reserve Sweeps

Federal Capitalization Grant Transfers

Investment Earnings Transfers

Investment Account Transfer

Total Other Financing Sources

OTHER FINANCING USES:

Bond/RAN/RAN Principal

Bond/RAN/RAN Interest

Loan Forgiveness

Operating Transfers Out:

Debt Service Sweeps

Loan Loss Reserve Sweeps

Federal Capitalization Grant Transfers

Investment Earnings Transfers

Investment Account Transfer

Total Other Financing Uses

Excess (deficiency) of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses

FUND BALANCES JULY 1, 2012

PRIOR YEAR ADJUSTMENTS

FUND BALANCES JUNE 30, 2013

DRINKING WATER

	STATE SPECIAL REVENUE	FEDERAL REVENUE	SPECIAL DEBT SERVICE
REVENUES:			
	\$84,895	\$10,189,089	\$13,681
	(56,929)		(4,538)
	798,892	207	2,639,708
TOTAL REVENUES	\$826,859	\$10,189,296	\$2,648,851

\$13,949,639
207,339
(146,686)
9,641,855
207

\$2,942,516
\$2,942,516

\$20,709,838

\$3,950,000

1,076,497

2,406,939

8,684,986

121,969

200,000

\$16,440,392

\$3,035,000

516,732

3,633,988

1,076,497

2,406,939

8,684,986

121,969

200,000

\$19,676,112

\$17,474,118

362,598,027

0

\$380,072,145

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, 2013**

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 2013, 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 did not require state match on projects and administration, but did require the state to match some set-aside funds in the DWSRF program. The state used 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 match-

ing 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 ac-

crual. 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.

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, 2013 \$451.25 of a money market savings account investment insured by the FDIC was in excess of the \$250,000 limit and was therefore not insured. This uninsured amount was sold and reinvested in August of 2013.

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, 2013, is fifty-three 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	\$45,566,224	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 in the program are held in U.S. Treasury bills and notes and are not considered to have credit risk. 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 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 EPA capitalization grant loans issued during SFY 2013 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 2013, the program forgave \$1,234,700 in loans in the WPCSRF and \$3,231,900 in loans in the DWSRF programs.

The drawn and outstanding principal balance of all loans guaranteed by the WPCSRF program as of June 30, 2013, is \$187,355,606 with an allowance for loan forgiveness of (\$2,883,500) resulting in a net loans receivable balance of \$184,472,106. The total loans receivable in the WPCSRF program includes \$175,819,353 presented as loans receivable (gross) and \$11,536,253 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, 2013, is \$127,858,644 with an allowance for loan forgiveness of (\$4,301,800) resulting in a net loans receivable balance of \$123,556,844.

Loans mature at various intervals through July 1, 2042. The scheduled principal payments on loans and advances to other funds maturing in the years following SFY 2013 are as follows:

<u>SFY ending June 30:</u>	<u>WPCSRF Amount</u>	<u>DWSRF Amount</u>
2013	\$ 11,344,391	\$ 7,827,399
2014	13,512,708	9,662,448
2015	13,888,000	8,966,900
2016	13,837,200	8,789,000
2017 and thereafter	<u>131,889,807</u>	<u>88,311,097</u>
Total	\$ 184,472,106	\$ 123,556,844

As of June 30, 2013, the WPCSRF and DWSRF programs had authorized loans to public entities of the State of Montana that in the aggregate exceeded \$374.2 and \$216.2 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	\$12,465,000
City of Great Falls	11,295,267	5,590,000
City of Bozeman	9,573,000	8,946,000
City of Bozeman	9,500,000	8,489,000
City of Helena	9,320,000	5,988,000
City of Great Falls *	7,084,000	116,581
City of Billings	6,542,000	5,415,000
Bigfork Water & Sewer	5,634,123	5,106,123
Big Sky/County Water & Sewer	7,000,000	4,353,000
Big Sky/County Water & Sewer	6,226,862	3,739,000
City of Lewistown	<u>5,400,000</u>	<u>3,567,000</u>
Total	\$92,045,252	\$63,774,704

Drinking Water State Revolving Fund

<u>Local Agency</u>	<u>Authorized Loan Amount</u>	<u>Outstanding Balance</u>
City of Billings	\$17,300,000	\$12,218,000
City of Bozeman A	10,000,000	9,668,000
City of Bozeman B *	9,552,000	4,412,878
City of Havre II	8,401,000	5,329,000
City of Billings	6,759,215	5,832,000
City of Whitefish II	5,839,000	2,234,000
City of Laurel	5,250,000	1,708,000
Big Sky WSD	5,000,000	3,971,000
City of Great Falls	4,010,000	3,225,000
City of Lewistown	<u>3,549,000</u>	<u>1,217,000</u>
Total	\$75,660,215	\$49,814,878

* Still drawing funds.

6. Interest Receivable on Loans

The interest receivable on loans represents interest owed by borrowers as of June 30, 2013, for the July 1, 2013, payment. It represents the six months of interest accrued from the previous loan payment date of January 1, 2013. Interest receivable balances in the WPCSRF include \$429,129 in the Special Administration fund and \$1,333,523 in the Debt Service and Loan Loss Reserve funds. Interest receivable in the DWSRF includes \$294,417 in the Special Administration fund and \$836,052 in the Debt Service and Loan Loss Reserve funds. Interest receivable does not include interest payments received through June 30, 2013, that were due July 1, 2013. Interest payments received through June 30, 2013, amounted to \$741,332 for the WPCSRF and \$355,325 for the DWSRF.

7. Bonds Payable

WPCSRF general obligation bonds payable at June 30, 2013, were as follows:

Series 2003D

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2014	2.00-3.75	<u>\$190,000</u>	<u>\$2,945</u>	<u>\$192,945</u>
Total Cash Requirements		\$190,000	\$2,945	\$192,945
(Paid in full 7-13-13)				

Series 2005G

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2014	4.00 – 4.75	\$140,000	\$39,350	\$179,350
2015		145,000	33,288	178,288
2016		150,000	26,650	176,650
2017		155,000	19,594	174,594
2018		165,000	11,994	176,994
2019		<u>170,000</u>	<u>4,038</u>	<u>174,038</u>
Total Cash Requirements		\$925,000	\$134,914	\$1,059,914

Series 2010C

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2014	2% - 4%	\$490,000	\$170,488	\$660,488
2015		500,000	160,588	660,588
2016		510,000	147,938	657,938
2017		520,000	132,488	652,488
2018		540,000	115,913	655,913
2019-2023		2,275,000	296,944	2,571,944
2024-2026		<u>605,000</u>	<u>36,900</u>	<u>641,900</u>
Total Cash Requirements		\$5,440,000	\$1,061,259	\$6,501,259

Series 2012D BAN

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2014	1.00%	\$0	\$37,500	\$37,500
2015		0	37,500	37,500
2016		<u>3,000,000</u>	<u>18,750</u>	<u>3,018,750</u>
Total Cash Requirements		\$3,000,000	\$93,750	\$3,093,750

TOTAL GENERAL OBLIGATION DEBT - WPCSRF

Payable during the year ending June 30,	Principal	Interest	Total
2014	\$820,000	\$250,283	\$1,070,283
2015	645,000	231,376	876,376
2016	3,660,000	193,338	3,853,338
2017	675,000	152,082	827,082

2018	705,000	127,907	832,907
2019-2023	2,445,000	300,982	2,745,982
2024-2026	<u>605,000</u>	<u>36,900</u>	<u>641,900</u>
Total Cash Requirements	\$9,555,000	\$1,292,868	\$10,847,868

DWSRF general obligation bonds payable at June 30, 2013, were as follows:

Series 2003E

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
	2.00 –			
2014	3.75	<u>\$115,000</u>	<u>\$1,783</u>	<u>\$116,783</u>
Total Cash Requirements		\$115,000	\$1,783	\$116,783

Series 2005F

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2014	4.00 – 4.75	\$255,000	\$103,000	\$358,000
2015		265,000	91,937	356,937
2016		275,000	79,788	354,788
2017		290,000	66,713	356,713
2018		305,000	52,581	357,581
2019-2021		<u>995,000</u>	<u>67,744</u>	<u>1,062,744</u>
Total Cash Requirements		\$2,385,000	\$461,763	\$2,846,763

Series 2010B

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2014	2.00-4.00	\$430,000	\$138,550	\$568,550
2015		440,000	129,850	569,850
2016		450,000	118,700	568,700
2017		460,000	105,050	565,050
2018		475,000	90,431	565,431
2019-2023		1,930,000	204,844	2,134,844
2024-2026		<u>315,000</u>	<u>19,300</u>	<u>334,300</u>
Total Cash Requirements		\$4,500,000	\$806,725	\$5,306,725

Series 2012C BAN

Payable during the year	Interest			
Ending June 30,	Range (%)	Principal	Interest	Total
2014	1.00%	\$800,000	\$0	\$0
2015	Variable	<u>150,000</u>	<u>3,000</u>	<u>153,000</u>
Total Cash Requirements		\$950,000	\$3,000	\$153,000

TOTAL GENERAL OBLIGATION DEBT - DWSRF

Payable during the year			
ending June 30,	Principal	Interest	Total
2014	\$1,600,000	\$243,333	\$1,843,333
2015	855,000	224,787	1,079,787
2016	725,000	198,488	923,488
2017	750,000	171,763	921,763
2018	780,000	143,012	923,012
2019-2023	2,925,000	272,588	3,197,588
2024-2026	<u>315,000</u>	<u>19,300</u>	<u>334,300</u>
Total Cash Requirements	\$7,950,000	\$1,273,271	\$9,223,771

8. Fund Balance

All of the fund balances in the WPCSRF and DWSRF programs are restricted. The 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, 2013, the EPA has awarded to the State of Montana capitalization grants of \$160,810,665 for the WPCSRF program and \$19,239,100 for the WPCSRF-ARRA program. In the WPCSRF program, \$366,504,938 has been drawn from federal and state funds for loans and administrative expenses. As of June 30, 2013, the EPA has awarded to the State of Montana capitalization grants of \$150,739,788 for the DWSRF program and \$19,500,000 for the DWSRF-ARRA program. In the DWSRF program, \$210,958,117 has been drawn from federal and state funds for loans and administrative expenses. Montana has issued GO bonds, RANs, and BANs totaling \$35,540,000 for use as state matching funds for the WPCSRF program and \$23,645,000 for use as state matching funds in the DWSRF program.

10. Federal Capitalization Grant Revenue

Actual draws of federal funds can 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	\$3,760,550
Adjustment Due From Federal Govt SFY 2012	-
Adjustment Deferred Revenue SFY 2012	-
Adjustment Due From Federal Govt SFY 2013	-
Adjustment Deferred Revenue SFY 2013	-
Other Adjustments	-
Total Federal Draws	\$3,760,550

<u>DWSRF</u>	
Federal Revenue - Combined Statement	\$10,189,089
Adjustment Due From Federal Govt SFY 2012	64,779
Adjustment Deferred Revenue SFY 2012	(103)
Adjustment Due From Federal Govt SFY 2013	(60,332)
Adjustment Deferred Revenue SFY 2013	158
Other Adjustments	-
Total Federal Draws	\$10,193,591

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. In SFY 2013, the SRF programs offered borrowers who issued revenue and general obligation bonds the chance to restructure their interest rates. Depending upon the term remaining to repay their loans, the new interest rates are between 1.25% and 3% as compared to current rates of 3.75% to 4%. Loans must be in compliance with the program and bond requirements. The total interest rate can be comprised of a percentage for loan interest rate, Loan Loss Reserve fee and Special Administration fee. For FY 2013, the interest income for each of these components were as follows:

	<u>WPCSRF</u>	<u>DWSRF</u>
Loan Interest	\$ 3,498,208	\$ 2,025,581
Loan Loss Reserve	\$ 1,342,513	\$ 614,127
Special Administration	\$ 1,362,533	\$ 798,892
Total Interest Income	\$ 6,203,254	\$ 3,438,600

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	\$364,887
Administration - State Funds	393,132
Technical Assistance	65,422
State Program Management	989,826
Local Assistance	77,409
Total Administration and Set-Asides	\$1,890,676

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

WPCSRF Program Administration Detail:	
Administration - EPA Grants	\$133,328
Administration - State Funds	918,512
Total Administration	\$ 1,051,840

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 the 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 January 15 and 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 Sweep 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 fund to fund loans that will be repaid. This transfer is only visible on the GAAP Financial Statements. The entries are eliminated on the Regulatory Basis Financial Statements.

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

The Investment Account Transfers represent the transfers of funds from the Investment accounts to the Principal and Debt Service accounts as needed within each SRF program per the trust indenture.

16. Long-Term Debt

During SFY 2013, the program issued a BAN in the DWSRF program for \$950,000 which was fully drawn and in the WPCSPF for \$3,000,000 of which \$1,600,000 has been drawn as of June 30, 2013. These funds were used for water and wastewater projects loan match.

As of June 30, 2013, the DWSRF and WPCSRF programs had a total of \$13,555,000 in General Obligation bonds outstanding and \$3,950,000 authorized BAN's outstanding.

17. Subsequent Events

In SFY 2014, the program issued a BAN in the DWSRF for \$1,750,000 and a GO Bond in the WPCSRF for \$5,000,000.

**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, 2013**

	WATER POLLUTION CONTROL SPECIAL REVENUE		WATER POLLUTION CONTROL DEBT SERVICE FUND		DRINKING WATER SPECIAL REVENUE		DRINKING WATER DEBT SERVICE FUND		(MEMORANDUM ONLY) TOTAL
ASSETS	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	
Cash and Cash Equivalents	\$32,527,747	\$590,172	\$2,401,379	\$1,141,662	\$7,265,152	\$942,149	\$587,032	\$1,118,248	\$46,573,541
Interest Receivable on Loans		421,408	985,363	312,365		294,417	678,906	157,146	2,849,606
Due From Other BU or Fund		103		138					241
Due from Federal Government									60,332
Investments	6,625,530				60,332				21,272,588
Bond Proceed Receivable	1,400,000				14,647,028				1,400,000
Loans Receivable	\$175,994,353								
Less Allowance for Loan Forgivenes	3,058,500				123,556,844				296,492,697
Advances to Other Funds	11,536,253				4,893,189				11,536,253
Total Assets	\$225,025,382	\$1,011,683	\$3,386,743	\$1,454,165	\$145,529,356	\$1,236,567	\$1,265,938	\$1,275,394	\$380,185,227
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts Payable					\$22,925	\$83			\$23,009
Loans Payable					4,749				4,749
Payroll Payable		\$19,010			29,402	15,629			64,041
Accrued Liability					2,815				2,815
Due to Other BU or Fund		15,756	\$1,226		284	1,046			18,311
Deferred Revenue					158				158
Total Liabilities	\$0	\$34,766	\$1,226	\$0	\$60,332	\$16,759	\$0	\$0	\$113,082
Fund Balances									
Fund Balance-Restricted	225,025,382	976,917	3,385,517	1,454,165	145,469,024	1,219,808	1,265,938	1,275,394	380,072,145
Total Liabilities and Fund Balances	\$225,025,382	\$1,011,683	\$3,386,743	\$1,454,165	\$145,529,356	\$1,236,567	\$1,265,938	\$1,275,394	\$380,185,227

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, 2013

	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	\$3,760,350				\$10,189,089				\$13,949,639
Interest Income on Investments	89,448	\$845		\$18,470	84,189	\$706		\$13,681	207,339
Investment Gains/(Losses)	(79,031)	(237)		(5,951)	(56,782)	(146)		(4,538)	(146,686)
Interest Income from Loans		1,362,534		1,342,513		798,892		614,127	9,641,855
Other Income					207				207
Total Revenues	\$3,770,967	\$1,363,142	\$3,498,208	\$1,355,032	\$10,216,703	\$799,452	\$2,025,581	\$623,270	\$23,652,355
EXPENDITURES:									
Program Administration/Set-Asides	\$160,000	\$891,840	\$0	\$0	\$1,497,544	\$393,132	\$0	\$0	\$2,942,516
Total Expenditures	\$160,000	\$891,840	\$0	\$0	\$1,497,544	\$393,132	\$0	\$0	\$2,942,516
Excess Revenues Over/(Under) Expenditures	\$3,610,967	\$471,301	\$3,498,208	\$1,355,032	\$8,719,159	\$406,320	\$2,025,581	\$623,270	\$20,709,838
OTHER FINANCING SOURCES:									
Bond/RAN/RAN Proceeds	\$3,000,000				\$950,000				\$3,950,000
Operating Transfers In:									
Debt Service Sweeps	1,045,028				31,470				1,076,497
Loan Loss Reserve Sweeps	1,800,998				605,941		\$388,120		2,795,059
Special Administration Account Sweeps	500,000						89,815		500,000
Investment Earnings Transfers	18,470	\$4	\$4		13,681		200,000	13,681	121,969
Investment Account Transfer							\$677,935		200,000
Total Other Financing Sources	\$6,364,496	\$0	\$4	\$0	\$1,601,091	\$0	\$677,935	\$0	\$8,643,526
OTHER FINANCING USES:									
Bond/RAN/RAN Principal			\$800,000				\$2,235,000		\$3,035,000
Bond/RAN/RAN Interest			234,687				282,045		516,732
Loan Forgiveness	\$1,344,749				\$2,289,239				3,633,988
Operating Transfers Out:									
Debt Service Sweeps			1,045,028	\$1,800,998			31,470	\$994,061	1,076,497
Loan Loss Reserve Sweeps									2,795,059
Special Administration Account Sweeps	4	\$500,000		18,470					500,000
Investment Earnings Transfers									121,969
Investment Account Transfer									200,000
Total Other Financing Uses	\$1,344,753	\$500,000	\$2,079,715	\$1,819,468	\$2,579,054	\$0	\$2,548,514	\$1,007,742	\$11,879,246
Excess (deficiency) of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	\$8,630,710	(\$28,699)	\$1,418,496	(\$464,436)	\$7,741,197	\$406,320	\$155,001	(\$384,472)	\$17,474,118
FUND BALANCES, JULY 1, 2012	216,394,672	1,005,615	1,967,021	1,918,601	137,727,827	813,488	1,110,937	1,659,866	362,598,027
PRIOR YEAR ADJUSTMENTS	0	0	0	0	0	0	0	0	0
FUND BALANCES, JUNE 30, 2013	\$225,025,382	\$975,917	\$3,385,517	\$1,454,165	\$145,469,024	\$1,219,808	\$1,265,938	\$1,275,394	\$380,072,145

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

DEPARTMENTS RESPONSE

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION



STEVE BULLOCK, GOVERNOR

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March 17, 2014

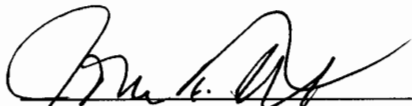
Tori Hunthausen, CPA
Legislative Auditor
Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705

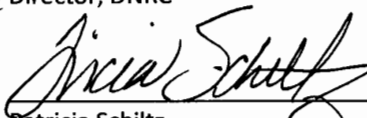
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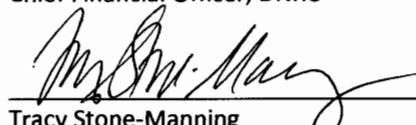
Dear Ms Hunthausen:


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, 2013. 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,


John E. Tubbs
Director, DNRC


Patricia Schiltz
Chief Financial Officer, DNRC


Tracy Stone-Manning
Director, DEQ


Dean Rude
Chief Financial Officer, DEQ