A Report
to the
Montana
Legislature

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, 2014

February 2015

Legislative Audit
Division

13-25B

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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.

The Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports, in addition to those required by Government Auditing Standards. 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, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. 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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Room 160, State Capitol
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LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

February 2015

The Legislative Audit Committee
of the Montana State Legislature:

This is our report resulting from the fiscal year 2014 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. We also reviewed supporting documentation for large loans issued during the audit period and reviewed documentation related to the General Obligation Bond and Bond Anticipation Note issuances. We also determined that 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. 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 Environmental Quality	Tom Livers, Director
	Dean Rude, Acting Deputy Director
	Christina Butler-Triem, Chief Financial Officer, Financial Services
	Todd Teegarden, Bureau Chief, Technical and Financial Assistance Bureau
Department of Natural Resources and Conservation	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, 2014

February 2015 | 13-25B | Report Summary

The Montana State Revolving Fund programs provide low interest loans for the planning, design, and construction of water pollution control and drinking water projects for communities around the state.

Context

The State Revolving Fund programs include the Water Pollution Control State Revolving Fund (WPCSRF) and the Drinking Water State Revolving Fund (DWSRF). The programs are jointly administered by the Department of Environmental Quality and the Department of Natural Resources and Conservation.

Loan agreements offered by the programs allow up to 30 years for repayment and all repayments of interest and principal must remain in the revolving funds. Therefore, as loans are repaid, funds are recycled to be made available for additional projects.

In addition to the recycled funds, the programs are funded by grants from the Environmental Protection Agency which requires a state match of funds. The state match is provided by the issuance of debt in the form of General Obligation Bonds, Revenue Anticipation Notes, and Bond Anticipation Notes.

Through June 30, 2014, the WPCSRF and the DWSRF programs authorized loans to public entities, in the aggregate, in excess of $402.8 million and $230.8 million, respectively.

At June 30, 2014, the net outstanding loan balances were approximately $197.9 million in the WPCSRF and $127.5 million in the DWSRF. In fiscal year 2014, the WPCSRF program either issued or closed $29,150,990 in loans. The DWSRF program either issued or closed $16,902,317 in loans.

Results

The Environmental Protection Agency requires an annual financial audit of the programs. We focused our audit effort on reviewing the financial statements and notes. We reviewed supporting documentation for select loans issued during the audit period and reviewed documentation related to the General Obligation Bond and Bond Anticipation Note issuances. We also determined that 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 to the departments.

For a complete copy of the report (13-25B) 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 whether the programs' financial statements and notes present fairly the financial position and results of operations for the fiscal year ended June 30, 2014.
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, 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 reviewed supporting documentation for select loans issued during the audit period and reviewed documentation related to the General Obligation Bond and Bond 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 B-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, 2014, the net outstanding balance of loans receivable for the WPCSRF program was $197,962,246.

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, 2014, the net outstanding balance of loans receivable for the DWSRF program was $127,505,659.

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.

In fiscal year 2014, the WPCSRF program either issued or closed $29,150,990 in loans. The DWSRF program either issued or closed $16,902,317 in loans. According to program personnel, the SRF programs experienced no loan defaults since the programs' inception. Federal law allows for a designated amount of the EPA capitalization grants to have a loan forgiveness component. If the community meets certain program requirements, a portion of the loan is forgiven.

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).

DEQ and DNRC are allowed to use a portion of the WPCSRF federal grant funds for program administration, and are given flexibility to set aside specified amounts of the DWSRF grant for specific purposes such as program administration, technical assistance to public water systems, capacity development, operator certification, and to assist in the development and implementation of local drinking water protection initiatives and other state programs. There are no set-aside funds available in WPCSRF. In addition, a special administration fee, in the form of a percentage of the loan amount, is added to the interest rate for each loan. This fee is used to fund administrative program costs not covered by the federal grant funds.

The SRF programs have issued General Obligation (GO) bonds, Revenue Anticipation Notes (RANs), and Bond Anticipation Notes (BANs) totaling $40,590,000 for use as state matching funds for the WPCSRF program and $25,395,000 for use as state matching funds in the DWSRF program. As of June 30, 2014, the DWSRF and WPCSRF programs had a combined total of $16,935,000 in GO bonds outstanding.

SRF program compliance was tested during our biennial financial-compliance audit of the Department of Environmental Quality (14-16) for the two fiscal years ended June 30, 2014. There were no recommendations that impact the financial statements of the State Revolving Fund programs.

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 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, 2014, 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, 2014, 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, 2014, 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, 2014, 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 fiscal 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 December 31, 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

December 31, 2014

MONTANA WATER POLLUTION CONTROL AND DRINKING WATER
STATE REVOLVING FUND PROGRAMS
COMBINED BALANCE SHEET
SPECIAL REVENUE AND DEBT SERVICE FUNDS
JUNE 30, 2014

	WATER POLLUTION CONTROL					DRINKING WATER					
	STATE SPECIAL REVENUE		FEDERAL SPECIAL REVENUE		DEBT SERVICE	STATE SPECIAL REVENUE		FEDERAL SPECIAL REVENUE		DEBT SERVICE	(MEMORANDUM ONLY) TOTAL
ASSETS											
Cash and Cash Equivalents		$17,748,026			$1,515,833		$8,709,855		$26,935	$359,499	$28,360,148
Interest Receivable on Loans		553,418			1,556,018		320,614			807,198	3,237,247
Due from Federal Government									$448,885		448,885
Interest Receivable on Investments		9,695					9,028				18,723
Investments		21,345,127			1,135,865		16,401,127			901,098	39,783,218
Loans Receivable	$188,601,298		$2,680,280			$127,505,659		$3,631,944			
Less Allowance for Loan Forgiveness	0	188,601,298	(2,680,280)	$0		0	127,505,659	(3,631,944)	0		316,106,957
Advances to Other Funds		9,360,948									9,360,948
Prepaid Expense		200							3		203
Total Assets		**$237,618,712**		**$0**	**$4,207,717**		**$152,946,282**		**$475,824**	**$2,067,795**	**$397,316,330**
LIABILITIES AND FUND BALANCES											
Liabilities:											
Accounts Payable		$455					$179		$2,074		$2,707
Loans Payable		10,250					6,100				16,350
Vouchers Payable		17,930					1,000		2,632		21,562
Payroll Payable		$29,150					21,588		37,875		88,613
Accrued Liability									14,360		14,360
Due to Other BU or Fund		26,169					600		2,593		29,362
Unearned Revenue									416,290		416,290
Total Liabilities		$83,954		$0	$0		$29,467		$475,824	$0	$589,244
Fund Balances:											
Fund Balance-Restricted		237,534,759		0	4,207,717		152,916,816		0	2,067,795	396,727,086
Total Liabilities and Fund Balances		**$237,618,712**		**$0**	**$4,207,717**		**$152,946,282**		**$475,824**	**$2,067,795**	**$397,316,330**

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

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, 2014

	WATER POLLUTION CONTROL			DRINKING WATER			(MEMORANDUM ONLY)
	STATE SPECIAL REVENUE	FEDERAL SPECIAL REVENUE	DEBT SERVICE	STATE SPECIAL REVENUE	FEDERAL SPECIAL REVENUE	DEBT SERVICE	TOTAL
REVENUES:							
Federal Capitalization Grant Revenue		$6,733,848			$7,599,720		$14,333,568
Interest Income on Investments	$98,306		$4,202	$79,074		$4,709	186,290
Investment Gains/(Losses)	(98,328)		(6,121)	(39,479)		(6,898)	(150,825)
Interest Income from Loans	1,384,728		4,001,371	879,042		2,314,277	8,579,418
Other Income					157		157
TOTAL REVENUES	$1,384,705	$6,733,848	$3,999,452	$918,637	$7,599,877	$2,312,088	$22,948,608
EXPENDITURES:							
Program Administration/Set-Asides	$1,031,411	$135,411	$0	$587,495	$1,553,806	$0	$3,308,124
TOTAL EXPENDITURES	$1,031,411	$135,411	$0	$587,495	$1,553,806	$0	$3,308,124
Excess Revenues Over (Under) Expenditures	$353,294	$6,598,437	$3,999,452	$331,142	$6,046,071	$2,312,088	$19,640,485
OTHER FINANCING SOURCES:							
Bond/BAN/RAN Proceeds	$5,000,000			$1,750,000			$6,750,000
Bond Premium	147,456						147,456
Operating Transfers In:							
Debt Service Sweeps	10,505						10,505
Loan Loss Reserve Sweeps	616,059						616,059
Federal Capitalization Grant Transfers	5,552,657			4,352,653			9,905,310
Investment Earnings Transfers	184		$240	4,703		$63,799	68,927
Investment Account Transfer						146,716	146,716
Bond Premium to Debt Service Transfer			62,241				62,241
Total Other Financing Sources	$11,326,862	$0	$62,481	$6,107,356	$0	$210,515	$17,707,214
OTHER FINANCING USES:							
Bond/RAN/BAN Principal			$3,820,000			$2,739,000	$6,559,000
Bond/RAN/BAN Interest			247,150			252,436	499,586
Bond Costs of Issuance	$85,216						85,216
Loan Forgiveness		$1,045,780			$1,693,418		2,739,198
Operating Transfers Out:							
Debt Service Sweeps			10,505				10,505
Loan Loss Reserve Sweeps			616,059				616,059
Federal Capitalization Grant Transfers		5,552,657			4,352,653		9,905,310
Investment Earnings Transfers	240		184	$63,799		4,703	68,927
Investment Account Transfer				146,716			146,716
Bond Premium to Debt Service Transfer	62,241						62,241
Total Other Financing Uses	$147,696	$6,598,437	$4,693,898	$210,515	$6,046,071	$2,996,140	$20,692,758
Excess (deficiency) of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	$11,532,460	$0	($631,966)	$6,227,984	$0	($473,537)	$16,654,941
FUND BALANCES JULY 1, 2013	226,002,299	0	4,839,682	146,688,832	0	2,541,332	380,072,145
PRIOR YEAR ADJUSTMENTS	(0)	0	0	(0)	0	(0)	(0)
FUND BALANCES JUNE 30, 2014	**$237,534,758**	**$0**	**$4,207,717**	**$152,916,816**	**$0**	**$2,067,795**	**$396,727,086**

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, 2014

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.

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 16.67 percent of the federal capitalization grant as matching funds for WPCSRF, and 20 percent for DWSRF, 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 unearned 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 Market value.

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.

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, 2014, is forty days. The effective duration method result is NA because the program does not have any debt investments at this time.

Investment Type	Market Value	Moody's Rating	Effective Duration
Held by trustee:			
Money market funds	$28,333,078	Aaa	NA

4. Investments

Power to Invest and Investment Policy
An 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 funds available for loans or to make bond 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 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 federal funds for capitalization grant loans issued during SFY 2014 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 2014, the program forgave $ 1,424,000 in loans in the WPCSRF and $ 2,954,663 in loans in the DWSRF programs.

The drawn and outstanding principal balance of all loans guaranteed by the WPCSRF program as of June 30, 2014, is $200,642,526 with an allowance for loan forgiveness of $2,680,280 resulting in a net loans receivable balance of $197,962,246. The total loans receivable in the WPCSRF program also includes $9,360,948 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, 2014, is $131,137,603 with an allowance for loan forgiveness of $3,631,944 resulting in a net loans receivable balance of $127,505,659 .

Loans mature at various intervals through July 1, 2043. The scheduled principal payments on loans and advances to other funds maturing in the years following SFY 2014 are as follows:

SFY ending June 30:	WPCSRF Amount	DWSRF Amount
2015	$ 12,801,019	$ 8,512,414
2016	15,393,369	9,993,738
2017	14,513,200	9,481,602
2018	15,633,772	9,253,500
2019 and thereafter	139,620,886	90,264,405
Total	**$ 197,962,246**	**$ 127,505,659**

As of June 30, 2014, the WPCSRF and DWSRF programs had authorized loans to public entities of the State of Montana that in the aggregate exceeded $402.8 and $230.8 million, respectively. The outstanding balances of the largest loans in each portfolio are as follows:

Water Pollution Control State Revolving Fund

Local Agency	Authorized Loan Amount	Outstanding Balance
City of Kalispell	$14,470,000	$11,729,000
City of Great Falls	11,295,267	5,017,000
City of Bozeman	9,573,000	8,501,000
City of Bozeman	9,500,000	8,112,000
City of Helena	9,320,000	5,335,000
City of Great Falls	7,084,000	6,952,000
City of Great Falls *	7,084,000	1,720,043
City of Billings	6,542,000	5,136,000
Bigfork Water & Sewer	5,634,123	4,897,000
Big Sky/County Water & Sewer	7,000,000	3,981,000
Big Sky/County Water & Sewer	6,226,862	3,419,000
Total	**$93,729,252**	**$64,799,043**

Drinking Water State Revolving Fund

Local Agency	Authorized Loan Amount	Outstanding Balance
City of Billings	$17,300,000	$11,361,000
City of Bozeman A	10,000,000	9,298,000
City of Bozeman B	9,552,000	9,221,000
City of Havre II	8,401,000	4,874,000
City of Billings	6,759,215	5,554,000
City of Billings*	6.100,000	501,136
City of Whitefish II	5,839,000	1,880,000
City of Laurel	5,250,000	1,380,000
Big Sky WSD	5,000,000	3,748,000
City of Great Falls	4,010,000	3,059,000
TOTAL	**$78,211,215**	**$50,876,136**

*Still drawing funds.

6. Interest Receivable on Loans

The interest receivable on loans represents interest owed by borrowers as of June 30, 2014, for the July 1, 2014, payment. It represents the six months of interest accrued from the previous loan payment date of January 1, 2014. Interest receivable balances in the WPCSRF include $553,418 in the Special Administration fund and $1,556,018 in the Debt Service and Loan Loss Reserve funds. Interest receivable in the DWSRF includes $320,614 in the Special Administration fund and $807,198 in the Debt Service and Loan Loss Reserve funds. Interest receivable does not include interest payments received through June 30, 2014, that were due July 1, 2014. Interest payments received through June 30, 2014, amounted to $539,207 for the WPCSRF and $347,459 for the DWSRF.

7. Interest Receivable on Investments

The interest receivable on investments is accrued interest paid on the purchase of a bond. When a bond is purchased the total amount paid includes the price of the bond plus accrued interest. When the next interest payment is made (every six months) for the full amount of interest, the programs are reimbursed for the accrued interest payment that was made when the bond was purchased. As of June 30, 2014, interest receivable on investments in the WPCSRF was $9,695 and $9,028 in the DWSRF.

8. Bonds Payable

WPCSRF general obligation bonds payable at June 30, 2014, were as follows:

Series 2005G

Payable during the year ending June 30,	**Interest Range (%)**	**Principal**	**Interest**	**Total**
2015	4.00 – 4.75	$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		170,000	4,038	174,038
Total Cash Requirements		**$785,000**	**$95,564**	**$880,564**

Series 2010C

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2015	2% - 4%	$ 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		560,000	97,338	657,338
2020-2024		1,910,000	219,906	2,129,906
2025-2026		410,000	16,600	426,600
Total Cash Requirements		**$4,950,000**	**$890,771**	**$5,840,771**

Series 2013E

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2015	2% - 4%	$345,000	$123,650	$468,650
2016		475,000	115,450	590,450
2017		480,000	105,900	585,900
2018		490,000	96,200	586,200
2019		500,000	86,300	586,300
2020-2024		2,710,000	208,200	2,918,200
Total Cash Requirements		**$5,000,000**	**$735,700**	**$5,735,700**

TOTAL GENERAL OBLIGATION DEBT - WPCSRF

Payable during the year ending June 30,	Principal	Interest	Total
2015	$ 990,000	$ 317,526	$ 1,307,526
2016	1,135,000	290,038	1,425,038
2017	1,155,000	257,982	1,412,982
2018	1,195,000	224,107	1,419,107
2019	1,230,000	187,676	1,417,676
2020-2024	4,620,000	428,106	5,048,106
2025-2026	410,000	16,600	426,600
Total Cash Requirements	**$10,735,000**	**$1,722,035**	**$12,457,035**

DWSRF general obligation bonds payable at June 30, 2014, were as follows:

Series 2005F

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2015	4.00 – 4.75	$ 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		315,000	37,856	352,856
2020-2021		680,000	29,888	709,888
Total Cash Requirements		**$2,130,000**	**$358,763**	**$2,488,763**

Series 2010B

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2015	2.00 - 4.00	$ 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		495,000	74,050	569,050
2020-2024		1,535,000	141,394	1,676,394
2025-2026		215,000	8,700	223,700
Total Cash Requirements		**$4,070,000**	**$668,175**	**$4,738,175**

Series 2013B BAN

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2015	1.00%	$395,000	$ 3,142	$398,142
2016	variable	366,000	7,320	373,320
Total Cash Requirements		**$761,000**	**$10,462**	**$771,462**

TOTAL GENERAL OBLIGATION DEBT - DWSRF

Payable during the year ending June 30,	Principal	Interest	Total
2015	$1,100,000	$224,929	$1,324,929
2016	1,091,000	205,808	1,296,808
2017	750,000	171,763	921,763
2018	780,000	143,012	923,012
2019	810,000	111,906	921,906
2020-2024	2,215,000	171,282	2,386,282
2025-2026	215,000	8,700	223,700
Total Cash Requirements	**$6,961,000**	**$1,037,400**	**$7,998,400**

9. 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.

10. 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, 2014, the EPA has awarded to the State of Montana capitalization grants of $167,663,665 for the WPCSRF program and $19,239,100 for the WPCSRF-ARRA program. In the WPCSRF program, $397,050,062 has been drawn from federal and state funds for loans and administrative expenses. As of June 30, 2014, the EPA has awarded to the State of Montana capitalization grants of $159,584,788 for the DWSRF program and $19,500,000 for the DWSRF-ARRA program. In the DWSRF program, $227,719,722 has been drawn from federal and state funds for loans and administrative expenses. Montana has issued GO bonds, RANs, and BANs totaling $40,590,000 for use as state matching funds for the WPCSRF program and $25,395,000 use as state matching funds in the DWSRF program.

11. 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, unearned 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:

WPCSRF

Federal Revenue - Combined Statement	**$6,733,848**
Adjustment Due From Federal Govt SFY 2013	-
Adjustment Unearned Revenue SFY 2013	-
Adjustment Due From Federal Govt SFY 2014	-
Adjustment Unearned Revenue SFY 2014	-
Other Adjustments	-
Total Federal Draws	**$6,733,848**

DWSRF

Federal Revenue - Combined Statement	**$7,599,720**
Adjustment Due From Federal Govt SFY 2013	60,332
Adjustment Unearned Revenue SFY 2013	0
Adjustment Due From Federal Govt SFY 2014	(448,885)
Adjustment Unearned Revenue SFY 2014	416,043
Other Adjustments	-
Total Federal Draws	**$7,627,210**

12. 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.

13. Investment Gains/ (Losses)

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

14. Interest Income from Loans

This revenue represents interest earnings from loan repayments made by borrowers. In SFY 2014, 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 2014, the interest income for each of these components were as follows:

	WPCSRF	DWSRF
Loan Interest	$ 3,269,964	$ 1,991,526
Loan Loss Reserve	$ 731,407	$ 322,751
Special Administration	$ 1,384,728	$ 879,042
Total Interest Income	**$ 5,386,099**	**$ 3,193,319**

15. 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	$330,990
Administration - State Funds	578,495
Technical Assistance	48,241
State Program Management	697,987
Local Assistance	485,588
Total Administration and Set-Asides	**$2,141,301**

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

WPCSRF Program Administration Detail:	
Administration - EPA Grants	$135,411
Administration - State Funds	1,031,411
Total Administration	**$1,166,822**

16. Other Financing Sources and Uses

The Debt Service Sweep 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 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 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.

The Bond Premium to Debt Service Transfer represents the transfer of bond premium on the GO 2013E bonds proceeds to the Debt Service account to pay interest on the bond debt.

17. Long-Term Debt

During SFY 2014, the program issued a BAN in the DWSRF program for $1,750,000 which was fully drawn. In the WPCSPF a GO bond was issued for $5,000,000. These funds were used for water and wastewater projects loan match.

As of June 30, 2014, the DWSRF and WPCSRF programs had a total of $16,935,000 in General Obligation bonds outstanding and $761,000 authorized BAN's outstanding.

18. Related Party Transaction

Per Title 85, Chapter 1, part 6, MCA, Renewable Resource Grant and Loan Program, the department is eligible to issue GO private sale bonds. DNRC has applied and received recycled loan funds from the SRF program for the non-point source private loan program. The loans are GO private sale bonds. The current loans in repayment have interest rates ranging from 3% to 4.3% and are repaid over 15 years.

19. Subsequent Events

In SFY 2014 the WPCSRF program was authorized and approved by the Board of Examiners a BAN for $3,100,000 no draws have been made to date.

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, 2014

	WATER POLLUTION CONTROL SPECIAL REVENUE			WATER POLLUTION CONTROL DEBT SERVICE FUND		DRINKING WATER SPECIAL REVENUE			DRINKING WATER DEBT SERVICE FUND		
ASSETS		**REVOLVING FUND**	**NON REVOLVING FUND**	**REVOLVING FUND**	**NON REVOLVING FUND**		**REVOLVING FUND**	**NON REVOLVING FUND**	**REVOLVING FUND**	**NON REVOLVING FUND**	**(MEMORANDUM ONLY) TOTAL**
Cash and Cash Equivalents		$17,680,270	$67,756	$1,339,379	$176,454		$8,668,650	$68,140	$294,329	$65,171	$28,360,148
Interest Receivable on Loans			553,418	1,301,394	254,624			320,614	711,010	96,188	3,237,247
Due From Other BU or Fund					384						384
Due from Federal Government							448,885				448,885
Interest Receivable on Investments		9,695					9,028				18,723
Investments		21,125,200	219,927		1,135,865		15,649,678	751,450		901,098	39,783,218
Loans Receivable	$191,281,578					131,137,603					
Less Allowance for Loan Forgivenes	2,680,280	188,601,298				3,631,944	127,505,659				316,106,957
Advances to Other Funds		9,360,948									9,360,948
Prepaid Expense			200				3				203
Total Assets		**$236,777,411**	**$841,301**	**$2,640,773**	**$1,567,328**		**152,281,902**	**1,140,203**	**$1,005,338**	**$1,062,457**	**$397,316,714**
LIABILITIES AND FUND BALANCES											
Liabilities:											
Accounts Payable		$77	$378				$2,074	$179			$2,707
Loans Payable			10,250					6,100			16,350
Vouchers Payable			17,930				2,632	1,000			21,562
Payroll Payable			29,150				37,875	21,588			88,613
Accrued Liability							14,360				14,360
Due to Other BU or Fund			26,169	$384			2,593	600			29,746
Unearned Revenue							416,290				416,290
Total Liabilities		$77	$83,877	$384	$0		475,824	29,467	$0	$0	$589,628
Fund Balances											
Fund Balance-Restricted		236,777,335	757,424	2,640,389	1,567,328		151,806,079	1,110,737	1,005,338	1,062,457	396,727,086
Total Liabilities and Fund Balances		**$236,777,411**	**$841,301**	**$2,640,773**	**$1,567,328**		**152,281,902**	**1,140,203**	**$1,005,338**	**$1,062,457**	**$397,316,714**

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, 2014

	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	$6,733,848				$7,599,720				$14,333,568
Interest Income on Investments	93,182	$5,123	$16	$4,186	72,860	$6,214	$5	$4,703	186,290
Investment Gains/(Losses)	(93,655)	(4,673)	67	(6,187)	(32,646)	(6,832)		(6,898)	(150,825)
Interest Income from Loans		1,384,728	3,269,964	731,408		879,042	1,991,526	322,751	8,579,418
Other Income					157				157
Total Revenues	$6,733,375	$1,385,178	$3,270,046	$729,406	$7,640,091	$878,424	$1,991,531	$320,557	$22,948,608
EXPENDITURES:									
Program Administration/Set-Asides	$162,464	$1,004,358	$0	$0	$1,553,806	$587,495	$0	$0	$3,308,124
Total Expenditures	$162,464	$1,004,358	$0	$0	$1,553,806	$587,495	$0	$0	$3,308,124
Excess Revenues Over/(Under) Expenditures	$6,570,911	$380,820	$3,270,046	$729,406	$6,086,284	$290,929	$1,991,531	$320,557	$19,640,485
OTHER FINANCING SOURCES:									
Bond/BAN/RAN Proceeds	$5,000,000				$1,750,000				$6,750,000
Bond Premium	147,456								147,456
Operating Transfers In:									
Debt Service Sweeps	10,505								10,505
Loan Loss Reserve Sweeps	616,059						$528,790		1,144,849
Special Administration Account Transfer	600,313				400,000				1,000,313
Investment Earnings Transfers	184		$240		4,703		63,799		68,927
Investment Account Transfer							146,716		146,716
Bond Premium to Debt Service Transfer			62,241						62,241
Total Other Financing Sources	$6,374,518	$0	$62,481	$0	$2,154,703	$0	$739,305	$0	$9,331,007
OTHER FINANCING USES:									
Bond/RAN/BAN Principal			$3,820,000				$2,739,000		$6,559,000
Bond/RAN/BAN Interest			247,150				252,436		499,586
Loan Forgiveness	$1,045,780				$1,693,418				2,739,198
Bond Costs of Issuance	$85,216								85,216
Operating Transfers Out:									
Debt Service Sweeps			10,505						10,505
Loan Loss Reserve Sweeps				$616,059				$528,790	1,144,849
Special Administration Account Transfer		$600,313				$400,000			1,000,313
Investment Earnings Transfers	240			184	63,799			4,703	68,927
Investment Account Transfer					146,716				146,716
Bond Premium to Debt Service Transfer	62,241								62,241
Total Other Financing Uses	$1,193,476	$600,313	$4,077,655	$616,243	$1,903,933	$400,000	$2,991,436	$533,494	$12,316,551
Excess (deficiency) of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	$11,751,953	($219,493)	($745,129)	$113,163	$6,337,055	($109,071)	($260,600)	($212,937)	$16,654,941
FUND BALANCES JULY 1, 2013	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
PRIOR YEAR ADJUSTMENTS	0	(0)	0	0	0	0	0	0	(0)
FUND BALANCES JUNE 30, 2014	**$236,777,335**	**$757,424**	**$2,640,389**	**$1,567,328**	**$151,806,079**	**$1,110,737**	**$1,005,338**	**$1,062,457**	**$396,727,086**

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).

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, 2014, and the related notes to the financial statements, which collectively comprise the programs' financial statements, and have issued our report thereon dated December 31, 2014.

<u>Internal Control over Financial Reporting</u>

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.

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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 results 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

December 31, 2014

Department of Environmental Quality

Department of Natural Resources and Conservation

Departments Response

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

STEVE BULLOCK, GOVERNOR
1625 ELEVENTH AVENUE
STATE OF MONTANA
DIRECTOR'S OFFICE (406) 444-2074
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February 3, 2015

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

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LEGISLATIVE AUDIT DIV.

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, 2014. 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

Tom Livers
Director, DEQ

Christina Butler-Triem
Chief Financial Officer, DEQ