



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

15-25A

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, 2015*

MARCH 2016

FINANCIAL AUDITS

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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 reports 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
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Helena, MT 59620-0802

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

March 2016

The Legislative Audit Committee
of the Montana State Legislature:

This is our report resulting from the fiscal year 2015 financial audit of the Montana Water Pollution Control (WPCSRF) and Drinking Water State Revolving Fund (DWSRF) Programs. 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.

An annual audit of these programs is required by the United States Environmental Protection Agency (EPA). We performed audit procedures to determine whether the financial statements present fairly, in all material respects, the fund balances of the WPCSRF and DWSRF Programs as of June 30, 2015, and changes in fund balances for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America. We also performed procedures over the supplementary financial schedules, which are prepared on a regulatory basis as requested by the EPA. 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

George Mathieus, Deputy Director

Dean Rude, Chief Financial Officer, Financial Services, through
November 2014

Christina Butler, Chief Financial Officer, Financial Services, from
November 2014 to May 2015

Todd Teegarden, Bureau Chief, Technical and Financial Assistance Bureau

Department of Natural Resources and Conservation

John E. Tubbs, Director

Patricia 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, 2015

MARCH 2016

15-25A

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. The total amounts distributed by the Water Pollution Control State Revolving Fund and the Drinking Water State Revolving Fund Programs in fiscal year 2015 were approximately \$35.6 million and \$18.5 million, respectively.

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. An annual audit of these programs is required by the Environmental Protection Agency (EPA).

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 EPA 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.

There is a loan forgiveness component to the EPA's capitalization grant awards. During fiscal year 2015, the program forgave \$650,500

in loans in the WPCSRF and \$2,352,241 in loans for the DWSRF Programs. A portion of the loans is forgiven when the public entity meets certain requirements.

Through June 30, 2015, the WPCSRF and the DWSRF Programs authorized loans to public entities, in the aggregate, in excess of \$463.8 million and \$249.4 million, respectively. At June 30, 2015, the net outstanding loan balances were approximately \$215.1 million in the WPCSRF and \$131.4 million in the DWSRF. The associated state match requirement for the WPCSRF and DWSRF Programs are approximately \$34.9 million and \$46.5 million, respectively, and the state has voluntarily matched additional funds of approximately \$61 million and \$4.8 million, respectively. These amounts are cumulative over the life of the programs.

Results

The EPA requires an annual financial audit of the programs. We reviewed the presentation of the financial statements and note disclosures to determine that the information was supported by the underlying accounting

(continued on back)

records. This process included comparing the financial statements to previous years and reviewing the notes for consistency with the financial statements and supporting documentation. We determined the accuracy of loan balances for selected loans receivable and reviewed documentation related to the General Obligation Bond issuance. We 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. Our audit did not result in any recommendations to the departments.

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 related notes present fairly the fund balances and changes in fund balances for the fiscal year ended June 30, 2015.
2. Determine whether the programs complied with selected, applicable state and federal laws and regulations that are direct and material to the determination of financial statement amounts.
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 supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

We reviewed the presentation of the financial statements and note disclosures to determine the information was supported by the underlying accounting records. 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 determined the accuracy of loan balances for selected loans receivable and reviewed documentation related to the General Obligation Bond 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 Auditing 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 State Revolving Fund (SRF) Programs operate as direct loan programs. Loans made to communities through the WPCSRF and DWSRF Programs are funded by Federal EPA capitalization grants, state match, and state recycled funds. 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).

WPCSRF

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.

Since inception, the SRF program has issued General Obligation (GO) bonds, Revenue Anticipation Notes (RANs), and Bond Anticipation Notes (BANs) totaling \$64,955,000 for use as state matching funds for the WPCSRF Program. The state match required is 16.67 percent of the EPA capitalization grants. The cumulative state match requirement for the WPCSRF Program is approximately \$34,900,000. In addition to the required match, the State has matched additional funds of approximately \$61,000,000. The additional funding was in response to the needs of public entities in Montana.

As of June 30, 2015, the net outstanding balance of loans receivable for the WPCSRF Program was \$215,069,236. The total amount distributed by the WPCSRF Program in fiscal year 2015 was approximately \$35,600,00.

DEQ and DNRC are allowed to use a portion of the WPCSRF federal grant funds for program administration. In addition, federal law allows for a designated amount of the EPA capitalization grants to have a loan forgiveness component. If the public entity meets certain program requirements based on income and unemployment data, population trends, and other relevant data such as whether the project or activity is to be carried out in an economically distressed area, a portion of the loan can be forgiven (up to 30 percent of the EPA capitalization grant).

DWSRF

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 for 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.

Since inception, the SRF program has issued GO bonds, RANs, and BANs totaling \$27,895,000 for use as state matching funds in the DWSRF Program. The state is required to match at least 20 percent of the Federal Capitalization grant in the DWSRF.

The required match to date in the DWSRF Program is \$46,500,000. In addition to the required match, the state has matched additional funds of approximately \$4,800,000. The additional funding was in response to the needs of public entities in Montana.

As of June 30, 2015, the net outstanding balance of loans receivable for the DWSRF Program was \$131,371,187. The total amount distributed by the DWSRF Program in fiscal year 2015 was approximately \$18,500,000.

Per federal regulations, DEQ and DNRC 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. The goal of the set-asides is to enable states to improve water system management and operations.

EPA capitalization grants in the DWSRF have a required loan forgiveness component. If the community meets certain program requirements, the DWSRF Program must forgive an amount at least equal to \$1,769,000, but no more than \$2,653,500. The priority for the loan forgiveness should be given to communities that could not otherwise afford such projects. Eligible projects include 1) repair, replace, and upgrade infrastructure of existing communities, 2) plans that improve the technical, financial, and managerial capacity and/ or 3) plans with a “green” component.

In both programs, 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.

As of June 30, 2015, the DWSRF and WPCSRF Programs had a combined total of \$39,605,000 in GO bonds outstanding. This debt is the obligation of the state of Montana and is not reflected in the programs’ financial statements.

SRF program compliance was tested by our office in fiscal year 2015. There were no recommendations.

The tables on pages 5 and 6 are provided for informational purposes. The tables contain information concerning the loans closed during fiscal year 2015 for the WPCSRF and DWSRF Programs. WPCSRF and DWSRF Program personnel define a project as closed when the program has granted a loan and the recipient is drawing funds. The tables list the project sponsor, the county in which the project was undertaken, a description of the water project, the total cost of the project and

additional funding sources other than the WPCSRF and DWSRF loans. Information specific to the WPCSRF and DWSRF Programs includes the amount of loan forgiven by the respective program and the amount available for loan for the project. The tables also includes information pertaining to the other state administered programs for the projects: the Renewable Resource Grant and Loan State Grant, the Reclamation and Development Planning Grant, the Treasure State Endowment Program State Grant, and the Community Development Block Grant. Highlighted columns represent the SRF funding.

Table 1
Water Pollution Control State Revolving Fund Projects Closed as of June 30, 2015

Project Sponsor	Project Name	County	Total Project Cost	Renewable Resource Grant & Loan State Grant*	Treasure State Endowment Program State Grant*	Reclamation and Development Planning Grant*	State Revolving Fund Loan Forgiven	Regular State Revolving Fund Loan**	State Revolving Fund Total***	Federal Army Corp Water Resources Development Act*	Community Funds Local*
Town of Alberton	Wastewater Ultraviolet Disinfection	Mineral	\$622,800		\$292,000	\$100,000		\$219,000	\$219,000		\$11,800
Town of Alberton	Rural Development Refinance	Mineral	\$362,874					\$330,000	\$330,000		\$32,874
Anaconda-Deer Lodge	Water Lines	Anaconda	\$2,798,000					\$2,798,000	\$2,798,000		
City of Bozeman	Landfill Mitigation	Gallatin	\$1,815,000					\$1,815,000	\$1,815,000		
Butte-Silver Bow County	Wastewater Treatment Plant	Silver Bow	\$34,678,000					\$30,268,000	\$30,268,000		\$4,410,000
Town of Dodson	Wastewater Project	Phillips	\$105,988		\$23,000			\$73,000	\$73,000		\$9,988
City of Glendive	Wastewater Project	Dawson	\$9,437,900	\$100,000	\$750,000		\$200,000	\$7,116,000	\$7,316,000		\$1,271,900
City of Glendive	Wastewater Bond Anticipation Note	Dawson	\$10,000,000					\$10,000,000	\$10,000,000		
City of Havre	Wastewater Treatment Plant	Hill	\$11,894,485	\$100,000	\$500,000			\$10,870,000	\$10,870,000		\$424,485
Town of Joliet	Headworks and Ultraviolet Treatment	Carbon	\$1,295,586	\$100,000	\$154,200		\$84,386	\$717,000	\$801,386	\$240,000	
City of Laurel	Wastewater Project	Yellowstone	\$2,580,000					\$2,580,000	\$2,580,000		
Town of Rexford	Wastewater Project	Lincoln	\$375,000				\$75,000	\$280,000	\$355,000		\$20,000
Town of Sunburst	Wastewater Lift Station	Lincoln	\$372,000					\$372,000	\$372,000		
City of Three Forks	Wastewater Treatment Plant	Lincoln	\$6,256,020	\$100,000	\$750,000			\$4,891,000	\$4,891,000	\$379,000	\$136,020
City of Whitefish	Wastewater Force Main	Lincoln	\$310,140					\$300,000	\$300,000		\$10,140
Totals			\$82,903,793	\$400,000	\$2,469,200	\$100,000	\$359,386	\$72,629,000	\$72,988,386	\$619,000	\$6,327,207

Source: Compiled by the Legislative Audit Division from information provided by program personnel.

*Indicates funding source other than Water Pollution Control State Revolving Fund Program Loan.

**The amounts in the Regular State Revolving Fund Loan column represent the amount available for loan for the project from the Water Pollution Control State Revolving Fund Program. The project sponsor is not required to borrow the full amount.

***The State Revolving Fund Total column reflects the sum of the loans forgiven by the Water Pollution Control State Revolving Fund Program and the amount available for loan for the project from the Water Pollution Control State Revolving Fund

Table 2
Drinking Water State Revolving Fund Projects Closed as of June 30, 2015

Project Sponsor	Water Project Description	County	Total Project Cost	Renewable Resource Grant & Loan State Grant*	Treasure State Endowment Program State Grant*	Community Development Block Grant*	State Revolving Fund Loan Forgiven	Regular State Revolving Fund Loan**	State Revolving Fund Total***	Federal Army Corp Water Resources Development Act*	Community Funds Local*
Town of Bainville	Engineering	Roosevelt	\$156,000					\$156,000	\$156,000		
Town of Bainville	Rural Development Drinking Water Loan Refinancing	Roosevelt	\$275,502					\$260,000	\$260,000		\$15,502
Bigfork County Water & Sewer District	Water Line Improvements	Flathead	\$3,025,136		\$750,000		\$500,000	\$804,000	\$1,304,000		\$971,136
City of Billings	Briarwood Reservoir	Yellowstone	\$3,823,732					\$3,700,000	\$3,700,000		\$123,732
Carter Water & Sewer District	Refinance	Chouteau	\$305,586					\$305,000	\$305,000		\$586
Town of Cascade	Phase III Water System Improvements	Cascade	\$2,070,000	\$100,000	\$750,000	\$450,000	\$385,000	\$385,000	\$770,000		
City of Chinook	Refinance	Blaine	\$323,768					\$323,768	\$323,768		
City of Conrad	Water Distribution System	Pondera	\$1,443,550		\$625,000			\$793,000	\$793,000		\$25,550
Fort Peck Water District	Improvements to Water System	Valley	\$699,562					\$662,000	\$662,000		\$37,562
City of Great Falls	Engineering Drinking Water System	Cascade	\$2,802,173					\$2,700,893	\$2,700,893		\$101,280
Town of Opheim	Rural Development Drinking Water Loan Refinance	Valley	\$247,861					\$247,861	\$247,861		
Town of Opheim	Water Tower Improvements	Valley	\$175,000				\$87,500	\$87,500	\$175,000		
Pablo Water District	Water Storage Tank	Lake	\$1,134,769				\$500,000	\$620,000	\$1,120,000		\$14,769
Town of Phillipsburg	System Improvements	Granite	\$1,117,003	\$100,000	\$550,000		\$212,000	\$212,000	\$424,000		\$43,003
Town of Phillipsburg (Grant Anticipation Note)	System Improvements	Granite	\$550,000					\$550,000	\$550,000		
Town of Pinesdale	Rural Development Drinking Water Loan Refinancing	Ravalli	\$487,310					\$487,310	\$487,310		
City of Polson	Water Line Improvements	Lake	\$1,095,733	\$100,000	\$512,300		\$231,500	\$231,500	\$463,000		\$20,433
City of Roundup	Water Main Rehab & Meters	Musselshell	\$2,244,250	\$100,000			\$500,000	\$1,392,000	\$1,892,000		\$252,250
Town of Ryegate	Rural Development Drinking Water Loan Refinancing	Golden Valley	\$216,800					\$216,800	\$216,800		
City of Three Forks	Water System Improvements	Gallatin	\$1,508,000				\$500,000	\$781,000	\$1,281,000	\$227,000	
City of Troy	Rural Development Drinking Water Loan Refinance	Lincoln	\$1,764,199					\$1,764,199	\$1,764,199		
City of White Sulphur Springs	Watermain Replacement	Meagher	\$474,803				\$233,500	\$233,500	\$467,000		\$7,803
Totals			\$25,940,736	\$400,000	\$3,187,300	\$450,000	\$3,149,500	\$16,913,331	\$20,062,831	\$227,000	\$1,613,606

Source: Compiled by the Legislative Audit Division from information provided by program personnel.

*Indicates funding source other than Drinking Water State Revolving Fund Program Loan.

**The amounts in the Regular State Revolving Fund Loan column represent the amount available for the loan for the project from the Drinking Water State Revolving Fund Program. The project sponsor is not required to borrow the full amount.

***The State Revolving Fund Total column reflects the sum of the loans forgiven by the Drinking Water State Revolving Fund Program and the amount available for loan for the project from the Drinking Water State Revolving Fund Program.

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, as of June 30, 2015, 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

The programs are jointly administered by the Departments of Environmental Quality and Natural Resources and Conservation. 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 fund balances of the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs as of June 30, 2015, and the changes in fund balances 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 fund balances and changes in fund balances 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, 2015, 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, 2015, 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 Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2016, 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

January 22, 2016

**MONTANA WATER POLLUTION CONTROL AND DRINKING WATER
STATE REVOLVING FUND PROGRAMS
COMBINED BALANCE SHEET
SPECIAL REVENUE AND DEBT SERVICE FUNDS
JUNE 30, 2015**

WATER POLLUTION CONTROL				DRINKING WATER			
ASSETS	STATE SPECIAL	FEDERAL SPECIAL	DEBT	STATE SPECIAL	FEDERAL SPECIAL	DEBT	(MEMORANDUM ONLY)
	REVENUE	REVENUE	SERVICE	REVENUE	REVENUE	SERVICE	TOTAL
Cash and Cash Equivalents	\$51,613,303	\$10	\$935,167	\$9,211,703	\$30	\$428,066	\$62,188,277
Interest Receivable on Loans	406,881		1,219,815	316,850		839,236	2,782,782
Due from Federal Government		5,409			84,402		89,812
Investments	11,745,627		2,930,971	23,777,490		921,279	39,375,367
Loans Receivable	\$208,241,375	\$2,313,196	0	\$131,371,187	\$4,225,680		339,612,563
Advances to Other Funds	0	(2,313,196)		0	(4,225,680)		6,827,881
Bond Proceeds Receivable	6,827,861			131,371,187			350,000
Prepaid Expense	500			350,000			1,031
Total Assets	\$278,835,547	\$5,419	\$5,085,953	\$165,027,230	\$84,963	\$2,188,581	\$451,227,694
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts Payable	\$17				\$304		\$322
Loans Payable	12,250	\$1,292		\$5,800	23,645		42,987
Vouchers Payable	26,942	68		1,417	1,547		29,974
Payroll Payable	28,886	4,043		20,523	52,781		106,234
Accrued Liability					6,515		6,515
Due to Other BU or Fund	4,872	16			170		4,872
Unearned Revenue	\$72,967	\$5,419	\$0	\$27,740	\$84,963	\$0	\$191,090
Total Liabilities							
Fund Balances:							
Fund Balance-Restricted	278,762,580	0	5,085,953	164,999,490	0	2,188,581	451,036,604
Total Liabilities and Fund Balances	\$278,835,547	\$5,419	\$5,085,953	\$165,027,230	\$84,963	\$2,188,581	\$451,227,694

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, 2015**

WATER POLLUTION CONTROL				DRINKING WATER			
REVENUES:	STATE SPECIAL REVENUE	FEDERAL SPECIAL REVENUE	DEBT SERVICE	STATE SPECIAL REVENUE	FEDERAL SPECIAL REVENUE	DEBT SERVICE	(MEMORANDUM ONLY) TOTAL
Federal Capitalization Grant Revenue		\$12,198,673	\$4,612		\$13,828,757		\$26,027,430
Interest Income on Investments	\$106,275		\$4,612	\$96,882		\$4,759	212,528
Investment Gains/(Losses)	(61,642)		(2,016)	(58,803)		(1,934)	(124,395)
Interest Income from Loans	1,441,471		4,144,293	902,741		2,415,066	8,903,572
Other Income					247		247
TOTAL REVENUES	\$1,486,105	\$12,198,673	\$4,146,889	\$940,820	\$13,829,004	\$2,417,891	\$35,019,382
EXPENDITURES:							
Program Administration/Set-Asides	\$971,795	\$221,122		\$583,640	\$1,660,263		\$3,436,820
TOTAL EXPENDITURES	\$971,795	\$221,122	\$0	\$583,640	\$1,660,263	\$0	\$3,436,820
Excess Revenues Over (Under) Expenditures	\$514,310	\$11,977,550	\$4,146,889	\$357,180	\$12,168,741	\$2,417,891	\$31,582,561
OTHER FINANCING SOURCES:							
Bond/IRAN/IRAN Proceeds	\$24,365,000			\$2,500,000			\$26,865,000
Bond Premium	2,897,265						2,897,265
Operating Transfers In:							
Debt Service Sweeps	1,499,639						1,499,639
Loan Loss Reserve Sweeps	476,244			132,149			608,393
Federal Capitalization Grant Transfers	11,694,134			9,222,764			20,916,898
Investment Earnings Transfers	4,517			4,751			113,873
Investment Account Transfer			\$1,176			\$103,429	48,839
Total Other Financing Sources	\$40,936,800	\$0	\$19,273	\$11,859,664	\$0	\$134,171	\$52,949,908
OTHER FINANCING USES:							
Bond/IRAN/IRAN Principal			\$990,000			\$2,066,000	\$3,056,000
Bond/IRAN/IRAN Interest			317,525			228,376	545,901
Bond Costs of Issuance	\$204,015						204,015
Loan Forgiveness		\$283,416			\$2,945,977		3,229,393
Operating Transfers Out:							
Debt Service Sweeps			1,499,639				1,499,639
Loan Loss Reserve Sweeps			476,244				608,393
Federal Capitalization Grant Transfers		11,694,134			9,222,764		20,916,898
Investment Earnings Transfers	1,176		4,517				113,873
Investment Account Transfer	18,097						48,839
Total Other Financing Uses	\$223,288	\$11,977,550	\$3,287,925	\$134,171	\$12,168,741	\$2,431,276	\$30,222,982
Excess (deficiency) of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	\$41,227,822	\$0	\$878,236	\$12,082,673	\$0	\$120,786	\$54,309,517
FUND BALANCES JULY 1, 2014							
PRIOR YEAR ADJUSTMENTS							
FUND BALANCES JUNE 30, 2015	\$278,762,580	\$0	\$5,085,963	\$164,999,490	\$0	\$2,188,581	\$451,036,604

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, 2015**

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 at least 16.67 percent of the federal capitalization grant as matching funds for WPCSRF, and at least 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, Board of Investments.

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 accompanying financial statements have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Also exhibited are supplementary financial schedules prepared on a regulatory basis of presentation as requested by the EPA for the WPCSRF and DWSRF program. 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, 2015, is forty six days.

<u>Investment Type</u>	<u>Market Value</u>	<u>Moody's Rating</u>
Held by trustee:		
Money Market Funds	\$62,188,174	Aaa

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. Most 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. Most 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 2015 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 2015, the program forgave \$650,500 in loans in the WPCSRF and \$2,352,241 in loans for the DWSRF programs.

The drawn and outstanding principal balance of all loans guaranteed by the WPCSRF program as of June 30, 2015, is \$217,382,432 with an allowance for loan forgiveness of \$2,313,196 resulting in a net loans outstanding balance of \$215,069,236, which includes \$6,827,861 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, 2015, is \$135,596,867 with an allowance for loan forgiveness of \$4,225,680 resulting in a net loans receivable balance of \$131,371,187.

Loans mature at various intervals through July 1, 2044. The scheduled principal payments on loans and advances to other funds maturing in the years following SFY 2015 are as follows:

<u>SFY ending June 30:</u>	<u>WPCSRF Amount</u>	<u>DWSRF Amount</u>
2016	\$ 14,218,609	\$ 8,435,258
2017	15,587,200	9,670,000

2018	24,925,678	9,707,500
2019	16,397,300	9,784,600
2020 and thereafter	<u>143,940,449</u>	<u>93,773,829</u>
Total	\$ 215,069,236	\$ 131,371,187

As of June 30, 2015, the WPCSRF and DWSRF programs had authorized loans to public entities of the State of Montana that in the aggregate exceeded \$463.8 and \$249.4 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	\$ 10,977,000
City of Great Falls	11,295,267	4,135,000
City of Havre	10,870,000	171,796
City of Glendive C BAN *	10,000,000	303,428
Butte-Silverbow County I	10,000,000	10,000,000
Butte-Silverbow County II *	10,000,000	2,203,779
City of Bozeman	9,573,000	8,111,000
City of Bozeman	9,500,000	7,711,000
City of Helena	9,320,000	4,669,000
City of Glendive B BAN	<u>7,116,000</u>	<u>7,116,000</u>
Total	\$ 102,144,267	\$ 55,398,003

Drinking Water State Revolving Fund

<u>Local Agency</u>	<u>Authorized Loan Amount</u>	<u>Outstanding Balance</u>
City of Billings	\$ 17,300,000	\$ 10,485,000
City of Bozeman A	10,000,000	8,901,000
City of Bozeman B	9,552,000	8,854,000
City of Havre II	8,401,000	4,408,000
City of Billings	6,759,215	5,268,000
City of Billings*	6,100,000	5,607,393
City of Whitefish II	5,839,000	1,519,000
City of Laurel	5,250,000	607,000
Big Sky WSD	5,000,000	3,507,000
City of Great Falls	<u>4,010,000</u>	<u>2,800,000</u>
TOTAL	\$ 78,211,215	\$ 51,956,393

* Still drawing funds.

6. Interest Receivable on Loans

The interest receivable on loans represents interest owed by borrowers as of June 30, 2015, for

the July 1, 2015, payment. It represents the six months of interest accrued from the previous loan payment date of January 1, 2015. Interest receivable balances in the WPCSRF include \$406,881 in the Special Administration fund and \$1,219,815 in the Debt Service and Loan Loss Reserve funds. Interest receivable in the DWSRF includes \$316,850 in the Special Administration fund and \$839,236 in the Debt Service and Loan Loss Reserve funds. Interest receivable does not include interest payments received through June 30, 2015, that were due July 1, 2015. Interest payments received through June 30, 2015, amounted to \$1,159,124 for the WPCSRF and \$528,953 for the DWSRF.

7. Bonds Payable

WPCSRF general obligation bonds payable at June 30, 2015, were as follows:

Series 2005G

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2016	4.00 – 4.75	\$640,000	\$15,013	\$655,013
Total Cash Requirements		\$640,000	\$15,013	\$655,013

Series 2010C

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2016	2% - 4%	\$2,255,000	\$114,231	\$2,369,231
2017		520,000	65,075	585,075
2018		540,000	48,500	588,500
2019		560,000	29,925	589,925
2020		575,000	10,063	585,063
Total Cash Requirements		\$4,450,000	\$267,794	\$4,717,794

Series 2013E

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2016	2% - 4%	\$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		510,000	73,650	583,650
2021-2024		2,200,000	134,550	2,334,550
Total Cash Requirements		\$4,655,000	\$612,050	\$5,267,050

Series 2015C

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
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2016	3% - 5%		\$699,168	\$699,168
2017		670,000	1,160,650	1,830,650
2018		805,000	1,134,500	1,939,500
2019		835,000	1,101,700	1,936,700
2020		870,000	1,067,600	1,937,600
2021-2025		4,955,000	4,695,600	9,650,600
2026-2030		6,310,000	3,299,750	9,609,750
2031-2035		8,060,000	1,511,500	9,571,500
2036		1,860,000	46,500	1,906,500
Total Cash Requirements		\$24,365,000	\$14,716,968	\$39,081,968

TOTAL GENERAL OBLIGATION DEBT - WPCSRF

Payable during the year

ending June 30,	Principal	Interest	Total
2016	3,370,000	943,862	4,313,862
2017	1,670,000	1,331,625	3,001,625
2018	1,835,000	1,279,200	3,114,200
2019	1,895,000	1,217,925	3,112,925
2020	1,955,000	1,151,313	3,106,313
2021-2025	7,155,000	4,830,150	11,985,150
2026-2030	6,310,000	3,299,750	9,609,750
2031-2035	8,060,000	1,511,500	9,571,500
2036	1,860,000	46,500	1,906,500
Total Cash Requirements	\$34,110,000	\$15,611,825	\$49,721,825

DWSRF general obligation bonds payable at June 30, 2015, were as follows:

Series 2005F

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2016	4.00 – 4.75	\$275,000	\$79,787	\$354,787
2017		290,000	66,713	356,713
2018		305,000	52,581	357,581
2019		315,000	37,856	352,856
2020		330,000	22,537	352,537
2021		350,000	7,350	357,350
Total Cash Requirements		\$1,865,000	\$266,824	\$2,131,824

Series 2010B

Payable during the year ending June 30	Interest Range (%)	Principal	Interest	Total
2016	2.00-4.00	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	510,000	56,463	566,463
2021-2025	1,130,000	91,431	1,221,431
2026	110,000	2,200	112,200
Total Cash Requirements	\$3,630,000	\$ 538,325	\$4,168,325

Series 2014A BAN

Payable during the year ending June 30	Interest Range (%)	Principal	Interest	Total
2016	1.25%	310,000	3,772	313,772
2018	variable	1,240,000	19,912	1,259,912
Total Cash Requirements		\$1,550,000	\$23,684	\$1,573,684

TOTAL GENERAL OBLIGATION DEBT - DWSRF

Payable during the year ending June 30	Principal	Interest	Total
2016	1,035,000	202,259	1,237,259
2017	750,000	171,763	921,763
2018	2,020,000	162,924	2,182,924
2019	810,000	111,906	921,906
2020	840,000	79,000	919,000
2021-2025	1,480,000	98,781	1,578,781
2026	110,000	2,200	112,200
Total Cash Requirements	\$7,045,000	\$828,833	\$ 7,873,833

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, 2015, the EPA has awarded to the State of Montana capitalization grants of \$174,480,665 for the WPCSRF program and \$19,239,100 for the WPCSRF-ARRA program. The state match requirement in the WPCSRF program is approximately \$34,900,000, but the state has matched additional funds of approximately \$61,000,000. In the WPCSRF program, \$433,495,062 has

been drawn from federal and state funds for loans and administrative expenses. As of June 30, 2015, the EPA has awarded to the State of Montana capitalization grants of \$168,371,788 for the DWSRF program and \$19,500,000 for the DWSRF-ARRA program. The state match requirement in the DWSRF program is approximately \$46,500,000, but the state has matched additional funds of approximately \$4,800,000. In the DWSRF program, \$246,627,808 has been drawn from federal and state funds for loans and administrative expenses. Montana has issued GO bonds, RANs, and BANs totaling \$64,955,000 for use as state matching funds for the WPCSRF program and \$27,895,000 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, 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:

<u>WPCSRF</u>	
Federal Revenue - Combined Statement	\$12,198,672
Adjustment Due From Federal Govt SFY 2014	-
Adjustment Unearned Revenue SFY 2014	-
Adjustment Due From Federal Govt SFY 2015	(5,409)
Adjustment Unearned Revenue SFY 2015	-
Other Adjustments	-
Total Federal Draws	\$12,193,263

<u>DWSRF</u>	
Federal Revenue - Combined Statement	\$13,828,757
Adjustment Due From Federal Govt SFY 2014	32,842
Adjustment Unearned Revenue SFY 2014	-
Adjustment Due From Federal Govt SFY 2015	(84,402)
Adjustment Unearned Revenue SFY 2015	-
Other Adjustments	-
Total Federal Draws	\$13,777,197

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 2015, 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 surcharge and Special Administration surcharge. For FY 2015, the interest incomes for each of these components were as follows:

	<u>WPCSRF</u>	<u>DWSRF</u>
Loan Interest	\$ 3,491,315	\$ 2,136,300
Loan Loss Reserve	652,978	278,766
Special Administration	<u>1,441,471</u>	<u>902,741</u>
Total Interest Income	\$ 5,585,764	\$ 3,317,807

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	\$363,497
Administration - State Funds	583,640
Technical Assistance	31,518
State Program Management	840,238
Local Assistance	425,010
Total Administration and Set-Asides	\$2,243,903

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

WPCSRF Program Administration Detail:

Administration - EPA Grants	\$221,122
Administration - State Funds	971,795
Total Administration	\$1,192,917

15. 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 and Debt Service 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 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 2015, the program issued a GO bond in the WPCSRF for \$24,365,000. These funds will be used for wastewater projects loan match.

As of June 30, 2015, the DWSRF and WPCSRF programs had a total of \$39,605,000 in General Obligation bonds outstanding and \$1,550,000 authorized BAN's outstanding.

17. 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 a balance of \$6,827,861, have interest rates ranging from 3% to 4.3% and are repaid over 15 years. These loans are presented as Advances to Other Funds on the balance sheets.

18. Subsequent Events

In SFY 2016, \$350,000 was drawn for a General Obligation Bond Anticipation Note (BAN), Taxable Series 2015B for the Drinking Water State Revolving Fund Program.. The BAN was issued on April 7, 2015 for \$3,000,000. The Board of Investments has approved the loan. No funds have been drawn as of fiscal year end June 30, 2015 and therefore bond proceeds are not reflected on the financial statements.

**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, 2015

	WATER POLLUTION CONTROL SPECIAL REVENUE		WATER POLLUTION CONTROL DEBT SERVICE FUND		DRINKING WATER SPECIAL REVENUE		DRINKING WATER DEBT SERVICE FUND		(MEMORANDUM ONLY) TOTAL
	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	
ASSETS									
Cash and Cash Equivalents	\$51,093,359	\$519,953	\$808,811	\$126,356	\$8,518,922	\$692,811	\$387,102	\$40,964	\$62,188,277
Interest Receivable on Loans		406,881	1,035,561	184,254		316,850	737,689	101,548	2,782,782
Due From Other BU or Fund				170					170
Due from Federal Government									89,812
Investments	5,409								
Loans Receivable	11,745,627		1,499,985	1,430,986				921,279	39,375,367
Less Allowance for Loan Forgiveness	\$210,554,572								
Advances to Other Funds	(2,313,196)				\$135,596,867				339,612,563
Bond Proceeds Receivable		208,241,375			(4,225,680)				6,827,861
Prepaid Expense		6,827,861							350,000
Total Assets	\$277,913,632	\$927,335	\$3,344,356	\$1,741,767	\$164,102,532	\$1,009,661	\$1,124,790	\$1,063,790	\$451,227,864

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts Payable	\$17	\$304							\$322
Loans Payable	\$1,292	12,250				\$5,800			42,987
Vouchers Payable	68	26,942				1,417			29,974
Payroll Payable	4,043	28,886				20,523			108,234
Accrued Liability									6,515
Due to Other BU or Fund		4,872	\$170						5,042
Unearned Revenue	16								187
Total Liabilities	\$5,419	\$72,967	\$170	\$0	\$84,963	\$27,740	\$0	\$0	\$191,260

Fund Balances

Fund Balance-Restricted									
	277,908,213	854,367	3,344,186	1,741,767	164,017,569	981,920	1,124,790	1,063,790	451,036,604
Total Liabilities and Fund Balances	\$277,913,632	\$927,335	\$3,344,356	\$1,741,767	\$164,102,532	\$1,009,661	\$1,124,790	\$1,063,790	\$451,227,864

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, 2015

REVENUES:	WATER POLLUTION CONTROL SPECIAL REVENUE		WATER POLLUTION CONTROL DEBT SERVICE FUND		DRINKING WATER SPECIAL REVENUE		DRINKING WATER DEBT SERVICE FUND		(MEMORANDUM ONLY) TOTAL
	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	
Federal Capitalization Grant Revenue	\$12,198,873				\$13,828,757				\$26,027,430
Interest Income on Investments	106,166	\$109	\$95	\$4,517	94,471	\$2,411	\$8	\$4,751	212,528
Investment Gains/(Losses)	(61,712)	70	279	(2,296)	(58,473)	(330)		(1,934)	(124,396)
Interest Income from Loans		1,441,471	3,491,315	652,978		902,741	2,136,300	278,766	8,903,572
Other Income					247				247
Total Revenues	\$12,243,128	\$1,441,650	\$3,491,688	\$655,200	\$13,865,002	\$904,822	\$2,136,307	\$281,583	\$35,019,381
EXPENDITURES:									
Program Administration/Set-Asides	\$248,211	\$944,706	\$0	\$0	\$1,660,263	\$583,640	\$0	\$0	\$3,436,820
Total Expenditures	\$248,211	\$944,706	\$0	\$0	\$1,660,263	\$583,640	\$0	\$0	\$3,436,820
Excess Revenues Over/(Under) Expenditures	\$11,994,916	\$496,944	\$3,491,688	\$655,200	\$12,204,739	\$321,183	\$2,136,307	\$281,583	\$31,582,560
OTHER FINANCING SOURCES:									
Bond/RAN/RAN Proceeds	\$24,385,000				\$2,500,000				\$26,885,000
Bond Premium	2,897,265								2,897,265
Operating Transfers In:									
Debt Service Sweeps	1,499,639								1,499,639
Loan Loss Reserve Sweeps	476,244				132,149		\$143,350		751,743
Special Administration Account Transfer	400,000				450,000				850,000
Investment Earnings Transfers	4,517		\$1,176		4,751				113,872
Investment Account Transfer			18,097				30,742		48,839
Total Other Financing Sources	\$29,642,666	\$0	\$19,273	\$0	\$3,086,900	\$0	\$277,521	\$0	\$33,028,359
OTHER FINANCING USES:									
Bond/RAN/RAN Principal			\$950,000				\$2,066,000		\$3,056,000
Bond/RAN/RAN Interest			317,525				228,376		545,901
Loan Forgiveness	\$283,416				\$2,945,977				3,229,393
Bond Costs of Issuance	204,015								204,015
Operating Transfers Out:									
Debt Service Sweeps			1,499,639	\$476,244				\$275,499	1,499,639
Loan Loss Reserve Sweeps									751,743
Special Administration Account Transfer		400,000				\$450,000			850,000
Investment Earnings Transfers	1,176			4,517	103,429			4,751	113,873
Investment Account Transfer	18,097				30,742				48,839
Total Other Financing Uses	\$506,704	\$400,000	\$2,807,164	\$480,761	\$3,086,948	\$450,000	\$2,294,376	\$280,250	\$10,299,403
Excess (deficiency) of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	\$41,130,878	\$96,944	\$703,797	\$174,439	\$12,211,490	(\$128,817)	\$119,452	\$1,333	\$54,309,516
FUND BALANCES JULY 1, 2014									
PRIOR YEAR ADJUSTMENTS	236,777,335	757,424	2,640,389	1,567,328	151,806,079	1,110,737	1,005,338	1,062,457	395,727,087
FUND BALANCES JUNE 30, 2015	\$277,908,213	\$854,367	\$3,344,186	\$1,741,767	\$164,017,569	\$981,920	\$1,124,790	\$1,063,790	\$451,036,604

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

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 States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2015, and the related notes to the financial statements, which collectively comprise the programs' financial statements, and have issued our report thereon dated January 22, 2016.

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 the 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

January 22, 2016

DEPARTMENT OF
ENVIRONMENTAL QUALITY

DEPARTMENT OF
NATURAL RESOURCES
AND CONSERVATION

DEPARTMENTS' RESPONSE

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION



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FAX: (406) 444-2684PO BOX 201601
HELENA, MONTANA 59620-1601

February 25, 2016

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

RECEIVED
MAR 03 2016
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, 2015. 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,

A handwritten signature in black ink, appearing to read "John E. Tubbs", written over a horizontal line.

John E. Tubbs
Director, DNRC

A handwritten signature in black ink, appearing to read "Patricia Schiltz", written over a horizontal line.

Patricia Schiltz
Chief Financial Officer, DNRC

A handwritten signature in black ink, appearing to read "Tom Livers", written over a horizontal line.

Tom Livers
Director, DEQ

A handwritten signature in black ink, appearing to read "George Mathieus", written over a horizontal line.

George Mathieus
Deputy Director, DEQ