

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

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.

For a complete copy of the report (15-25A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>
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