



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

19-25A

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, 2019*

MARCH 2020

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 and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 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 reporting 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, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

March 2020

The Legislative Audit Committee
of the Montana State Legislature:

This is the financial audit report of the Montana Water Pollution Control State Revolving Fund and Drinking Water State Revolving Fund Programs (programs) for the fiscal year ended June 30, 2019. An annual audit of these programs is required by the United States Environmental Protection Agency.

The programs are jointly administered by the Department of Natural Resources and Conservation and the Department of Environmental Quality. The management of the departments are responsible for the preparation of the financial statements and the related notes.

This audit did not result in any audit recommendations. We issued an unmodified opinion on the financial statements for the fiscal year ended June 30, 2019. The issuance of an unmodified opinion means the reader can rely on the information presented.

The departments' written response to the audit is included in the audit report on page C-1. We thank the directors and their staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Environmental Quality

Shaun McGrath, Director
George Mathieus, Deputy Director
Brenda Thomas, Chief Financial Officer, Fiscal Services
Kevin Smith, Bureau Chief, Engineering Bureau

Department of Natural Resources and Conservation

John E. Tubbs, Director
Kerry Davant, Deputy Director
Rex Renk, Chief of Staff
Patricia Greiberis, 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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FINANCIAL AUDIT

Montana Water Pollution Control and
Drinking Water State Revolving Fund
Programs

For the Fiscal Year Ended June 30, 2019

MARCH 2020

19-25A

REPORT SUMMARY

The Montana State Revolving Fund programs (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 loans receivable balance was approximately \$291.5 million in the Water Pollution Control State Revolving Fund program as of June 30, 2019, and \$169.3 million in the Drinking Water State Revolving Fund program as of June 30, 2019. The audit resulted in no recommendations and an unmodified opinion on the financial statements.

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 United States 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 federal capitalization grants from the EPA, which require 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.

At June 30, 2019, the loans receivable balances were approximately \$291.5 million in the WPCSRF and \$169.3 million in the DWSRF. The associated state match requirement for the WPCSRF and DWSRF programs are approximately \$40.6 million and \$55 million, respectively, and the state has contributed additional match funds of approximately \$65.7 million and over \$7.2 million, respectively. These additional funds are used to meet the needs of public entities in Montana. These match amounts are cumulative over the life of the programs.

Results

We audited the financial statements and note disclosures and determined whether the information was supported by the underlying accounting records and the supporting documentation. This process 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 also reviewed the notes and determined whether the required disclosures were present. We evaluated agency controls over information provided by the trustee bank and determined program compliance with selected, applicable state laws.

The report includes supplementary information in the form of regulatory financial statements. The EPA requires these statements. The statements show the separated activity of the revolving and non-revolving funds. We compared the regulatory financial statements to the financial statements prepared in accordance with Generally Accepted Accounting Principles. We also discussed the purpose, the method for preparing, and the requirements for the regulatory statements with management.

This audit did not result in any audit recommendations, and we issued an unmodified opinion on the financial statements for the fiscal year ended June 30, 2019. This means the reader can rely on the information presented in the financial statements.

For a complete copy of the report (19-25A) 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 <https://leg.mt.gov/lad/audit-reports>
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail LADHotline@mt.gov.

Chapter I – Introduction

Introduction

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

1. Determine whether the programs' financial statements and related notes present fairly the financial position and results of operations of the programs for the fiscal year ended June 30, 2019.
2. Determine whether the programs complied with state laws and federal regulations that are fundamental and direct and material to the determination of amounts on the financial statements.
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 audited the financial statements and note disclosures and determined whether the information was supported by the underlying accounting records and supporting documentation. This process 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 also reviewed the notes and determined whether the required disclosures were present. We evaluated agency controls over information provided by the trustee bank and determined program compliance with selected, applicable state laws and federal regulations.

The report includes supplementary information in the form of regulatory financial statements. The Environmental Protection Agency (EPA) requires these statements. The statements show the separated activity of the revolving and non-revolving funds. We compared the regulatory financial statements to the financial statements prepared in accordance with Generally Accepted Accounting Principles. We also discussed the purpose, the method for preparing, and the requirements for the regulatory statements with management.

The 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 the EPA capitalization grants, state match, and state recycled funds. The programs are jointly administered by the Engineering 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 in the form of 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 capitalization grants and state match funds and may be financed up to 30 years. As of June 30, 2019, the loans receivable balance for the WPCSRF program was approximately \$291.5 million.

Since inception, the SRF program has issued General Obligation (GO) bonds, Revenue Anticipation Notes (RANs), and Bond Anticipation Notes (BANs) for use as state matching funds for the WPCSRF program. The cumulative state match requirement for the WPCSRF program is approximately \$40.6 million. In addition to the required match, the state has contributed additional funds of approximately \$65.7 million. The additional funding was in response to the needs of public entities in Montana.

DEQ and DNRC are allowed to use a portion of the WPCSRF federal capitalization grant funds for program administration. In addition, federal law allows for a designated amount of the EPA federal capitalization grants to have a loan forgiveness component. Loan forgiveness for the WPCSRF program was approximately \$1.9 million in fiscal year 2019. The program may forgive an amount not to exceed 40 percent of the amount of the federal capitalization grant received by the state for the year for total loans. Loan forgiveness is awarded to a public entity based on affordability criteria which takes into consideration the user rate per median household income, the local unemployment rate, and population trends. In 2019, the intent of loan forgiveness was to provide support to lower-income communities. Each entity receives a consolidated score based on these criteria. Loan forgiveness is awarded to those entities with the highest scores until the maximum allowable amount has been reached.

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 loans for community

water systems and nonprofit noncommunity water systems. Drinking water loans are comprised of federal capitalization grants and state match funds and may be financed for up to 30 years. As of June 30, 2019, the outstanding balance of loans receivable for the DWSRF program was \$169.3 million.

Since inception, the SRF program has issued GO bonds, RANs, and BANs for use as state matching funds in the DWSRF program. The total required match to date in the DWSRF program is \$55 million. In addition to the required match, the state has contributed additional funds of over \$7.2 million. The additional funding was in response to the needs of public entities in Montana.

Per federal regulations, DEQ and DNRC are given flexibility to set aside specified amounts of the DWSRF federal capitalization grants 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.

Federal regulation allows the DWSRF program to have a loan forgiveness component. Loan forgiveness for the DWSRF program was approximately \$2.5 million in fiscal year 2019. If the community meets certain program requirements, the DWSRF program may forgive an amount not to exceed 30 percent of the amount of the federal capitalization grant received by the state for the year for total loans. To receive loan forgiveness, the public entity must meet certain program requirements. These program requirements are based on user rates as compared to median household income. In 2019, the intent of loan forgiveness was to provide support to lower-income communities.

WPCSRF and DWSRF Programs

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 capitalization grant funds.

As of June 30, 2019, the programs had a combined total of approximately \$25.3 million in GO bonds principal outstanding. This debt is the obligation of the state of Montana and is not reflected in the programs' financial statements, but the debt is described in the notes.

The state may issue notes in anticipation of a bond issuance. These notes are called Bond Anticipation Notes (BANs). As of June 30, 2019, the funds for the remaining BAN for

the Water Pollution Control Program had not been fully drawn. The balance available was approximately \$1.2 million. As of June 30, 2019, the funds for the remaining BAN for the Drinking Water Program had not been fully drawn. The balance available was approximately \$1.4 million.

Tables 1 and 2 are provided for informational purposes. The tables contain information concerning the loans closed during fiscal year 2019 for the programs. Programs' personnel define a project as closed when the program has granted a loan, and the recipient is drawing funds. Information specific to the programs includes the amount of loan forgiveness by the respective programs and the amount available to loan for the project. Columns highlighted in green represent SRF funding.

Table 1
Water Pollution Control State Revolving Fund Projects Closed as of June 30, 2019

Project Sponsor	Project Description	County	Total Project Cost	Renewable Resource Grant & Loan*	Treasure State Endowment Program State *	State Revolving Fund Loan Forgiven	State Revolving Fund Loan Regular**	Rural Development Grant*	Community Funds Local*
Anaconda/Deer Lodge	Wastewater Treatment Plant Rehab/Upgrade	Deer Lodge	\$5,356,050			\$217,350	\$4,278,000		\$860,700
Arlee Water & Sewer District	Wastewater Improvements	Lake	\$69,000				\$69,000		
Town of Chester	Wastewater Collection System Improvements	Liberty	\$781,200	\$125,000		\$26,000	\$622,000		\$8,200
Highwood Water & Sewer District	Wastewater System Improvements	Chouteau	\$332,500			\$52,500	\$250,000		\$30,000
Hill County Rural Special Improvements District	Lift Station Improvements	Hill	\$404,575			\$116,250	\$279,000		\$9,325
City of Kalispell	Wastewater Interceptor	Flathead	\$18,065,665			\$400,000	\$14,000,000		\$3,665,665
City of Livingston	Wastewater Improvements	Park	\$4,840,000				\$4,840,000		
Town of Medicine Lake	Lift Station/Lagoon Rehab	Sheridan	\$2,770,000	\$125,000	\$500,000		\$953,000	\$1,130,750	\$61,250
Missoula City Fairgrounds	Replace Sewer Main	Missoula	\$633,750				\$599,000		\$34,750
Resource Development Bureau 21	Various	Various Counties	\$1,100,000				\$1,100,000		
City of Shelby	Wastewater Lagoon Project	Toole	\$1,950,000			\$100,000	\$1,850,000		
City of Sidney	Wastewater Improvements Phase III	Richland	\$5,459,138			\$300,000	\$4,159,138		\$1,000,000
City of Thompson Falls Ban Anticipation Note	Wastewater System Improvements	Sanders	\$1,030,000				\$1,030,000		
City of Townsend	Wastewater System Improvements	Broadwater	\$5,910,000	\$125,000	\$625,000	\$400,000	\$4,760,000		
Town of Twin Bridges Ban Anticipation Note	Wastewater System Improvements	Madison	\$250,000				\$250,000		
Worden-Ballantine Water & Sewer District	Wastewater Improvements	Yellowstone	\$382,000			\$90,000	\$267,000		\$25,000
		Totals	\$49,333,878	\$375,000	\$1,125,000	\$1,702,100	\$39,306,138	\$1,130,750	\$5,694,890
						State Revolving Fund Total			
							\$41,008,238		

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.

Table 2
Drinking Water State Revolving Fund Projects Closed as of June 30, 2019

Project Sponsor	Project Description	County	Total Project Cost	Renewable Resource Grant & Loan*	Treasure State Endowment Program State *	Treasure State Regional Water Grant*	Community Development Block Grant*	State Revolving Fund Loan Forgiven	State Revolving Fund Loan Regular**	Federal Army Corp Water Resources Development Act*	Community Funds Local*
Absarokee	Water Distribution System Improvemts	Stillwater	\$4,057,000		\$500,000			\$500,000	\$3,057,000		
Town of Big Timber	Water Treatment Plant	Sweet Grass	\$5,657,027						\$4,606,000		\$1,051,027
Town of Circle	Main Replacement & Meters	McCone	\$942,000				\$450,000	\$246,000	\$246,000		
City of Cut Bank	Water Distribution Replacement	Glacier	\$2,226,000		\$750,000			\$500,000	\$726,000		\$250,000
Town of Dodson	New Pumphouse & Connections	Phillips	\$127,000	\$9,000				\$59,000	\$59,000		
Dry Redwater Regional Water Authority	Booster Station & Line Expansion	McCone	\$3,937,813			\$2,271,713			\$75,000		\$1,591,100
Town of Dutton	Pumphouse Improvements	Teton	\$1,131,000					\$417,000	\$417,000	\$297,000	
Emerald Heights Water District Bond Anticipation Note	Engineering/Well Costs	Flathead	\$100,000						\$100,000		
Town of Eureka	Midvale Acquisition	Lincoln	\$377,455						\$377,455		
Town of Fairview	Water Line Replacement	Richland	\$2,695,500					\$500,000	\$2,183,000		\$12,500
City of Laurel	Sedimentation	Yellowstone	\$10,268,269	\$125,000	\$500,000				\$4,921,000		\$4,722,269
Missoula County Fairgrounds	Water Distribution Replacement	Missoula	\$739,750						\$705,000		\$34,750
City of Red Lodge	Main Replacement	Carbon	\$1,940,000					\$500,000	\$1,123,000		\$317,000
Town of Sheridan Bond Anticipation Note	Water Distribution	Madison	\$70,000						\$70,000		
Town of Stanford	Rural Development Refinance	Judith Basin	\$993,918						\$903,000		\$90,918
Town of Stanford	Well	Judith Basin	\$2,635,638		\$288,638			\$500,000	\$1,822,000		\$25,000
City of Thompson Falls	Water Distribution Replacement	Sanders	\$547,760					\$238,000	\$238,000		\$71,760
		Totals	\$38,446,130	\$134,000	\$2,038,638	\$2,271,713	\$450,000	\$3,460,000	\$21,628,455	\$297,000	\$8,166,324
								State Revolving Fund Total			
									\$25,088,455		

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.

Independent Auditor's Report and Programs' Financial Statements

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Montana Water Pollution Control and Drinking Water State Revolving Fund Programs' (programs) Combined Balance Sheet–Special Revenue and Debt Service Funds as of June 30, 2019, 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 to the 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 *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 programs as of June 30, 2019, and the changes in fund balances in 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 to 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. The financial statements do not purport to, and do not, present fairly the financial position of the state of Montana as of June 30, 2019, 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 as a whole. 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, 2019, 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2020, on our consideration of the 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 that 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the programs' internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 25, 2020

**MONTANA WATER POLLUTION CONTROL AND DRINKING WATER
STATE REVOLVING FUND PROGRAMS
COMBINED BALANCE SHEET
SPECIAL REVENUE AND DEBT SERVICE FUNDS
JUNE 30, 2019**

	WATER POLLUTION CONTROL				DRINKING WATER			
	STATE SPECIAL REVENUE	FEDERAL SPECIAL REVENUE	DEBT SERVICE	DEBT SERVICE	STATE SPECIAL REVENUE	FEDERAL SPECIAL REVENUE	DEBT SERVICE	DEBT SERVICE
ASSETS								
Cash and Cash Equivalents	\$18,454,026	\$36	\$4,312,336	1,740,374	\$10,541,825		\$1,375,576	\$34,663,977
Interest Receivable on Loans	368,208				254,180		982,708	\$3,365,470
Due from Federal Government		8,439				82,579		\$91,018
Due from Other BU or Fund			2,021					\$2,021
Investments								\$6,074,776
Loans Receivable	\$291,536,242				\$169,316,440			\$460,852,682
Less Allowance for Loan Forgiveness	0	\$5,490,562	0		0	\$4,037,272		\$3,108,298
Advances to Other Funds		(5,490,562)				(4,037,272)		\$2,049
Prepaid Expense								
Total Assets	\$313,486,774		\$6,054,732		\$188,187,220		\$2,358,285	\$510,180,292
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts Payable	\$343							\$343
Loans Payable	14,256							\$49,619
Vouchers Payable	17,527	\$1,700			\$7,113	\$26,750		\$20,749
Payroll Payable	26,885	6,776			3,133			\$120,386
Due to Other BU or Fund	2,021		\$1,592		32,049	54,677	\$2,787	\$6,401
Unearned Revenue								\$245
Advance from BAN (Intercept) Payable	\$61,032		1,190,000				1,400,000	\$2,590,000
Total Liabilities		\$8,476	\$1,191,592		\$39,251	\$84,805	\$1,402,787	\$2,787,943
Fund Balances:								
Fund Balance-Restricted	313,425,742		4,863,139		188,147,969		955,498	507,392,348
Total Liabilities and Fund Balances	\$313,486,774	\$8,476	\$6,054,732		\$188,187,220	\$84,805	\$2,358,285	\$510,180,292

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, 2019**

		WATER POLLUTION CONTROL			DRINKING WATER			(MEMORANDUM ONLY)	
REVENUES:	STATE SPECIAL REVENUE	FEDERAL REVENUE	SPECIAL REVENUE	DEBT SERVICE	STATE SPECIAL REVENUE	FEDERAL REVENUE	SPECIAL REVENUE	DEBT SERVICE	TOTAL
Federal Capitalization Grant Revenue			\$7,181,792	\$51,115		\$11,449,964		\$13,790	\$18,631,757
Interest Income on Investments	\$259,283				\$308,593			\$137,807	\$632,781
Investment Appr/Depr Income	1,320,973			6,387,881	137,807			3,506,842	\$137,807
Interest Income from Loans					780,325				\$11,996,021
Other Income				27			316		\$343
TOTAL REVENUES	\$1,580,255		\$7,181,819	\$6,438,997	1,226,725		\$11,450,280	\$3,520,632	\$31,398,709
EXPENDITURES:									
Program Administration/Set-Asides	\$1,016,794		\$287,354		\$530,371		\$1,886,458		\$3,720,978
TOTAL EXPENDITURES	\$1,016,794		\$287,354	\$0	\$530,371		\$1,886,458		\$3,720,978
Excess Revenues Over (Under) Expenditures	\$563,461		\$6,894,466	\$6,438,997	\$696,353		\$9,563,822	\$3,520,632	\$27,677,730
OTHER FINANCING SOURCES:									
Operating Transfers In:									
BAN (Intercept) Transfers	\$2,240,000				\$3,000,000				\$5,240,000
Debt Service Sweeps	449,084				326,817				\$775,901
Loan Loss Reserve Sweeps	593,757				7,039,328			\$7,948	\$593,757
Federal Capitalization Grant Transfers	5,024,934			\$53,416	9,986			677,250	\$12,064,262
Investment Earnings Transfers	41,657			330,000					\$113,006
Investment Fund (Account) Transfer									\$1,007,250
Transfer from DW (between programs)									\$3,000,000
Total Other Financing Sources	\$11,349,433		\$0	\$383,416	\$10,376,131		\$0	\$685,198	\$22,794,178
OTHER FINANCING USES:									
Bond Principal				\$2,545,000				\$495,000	\$3,040,000
Bond/BAN (Intercept) Interest				1,194,114				96,421	\$1,290,535
Loan Forgiveness		\$1,869,532				\$2,524,495			\$4,394,027
Operating Transfers Out:									
BAN (Intercept) Transfer				2,240,000				3,000,000	\$5,240,000
Debt Service Sweeps				449,084				326,817	\$775,901
Loan Loss Reserve Sweeps				593,757					\$593,757
Federal Capitalization Grant Transfers							7,039,328		\$12,064,262
Investment Earnings Transfers								9,986	\$113,006
Investment Fund (Account) Transfer									\$1,007,250
Transfer to WW (between programs)									\$3,000,000
Total Other Financing Uses	\$383,416		\$6,894,466	\$7,063,612	\$3,685,198		\$9,563,823	\$3,928,224	\$31,518,739
Excess (deficiency) of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	\$11,529,478		(\$0)	(\$241,200)	\$7,387,286		(\$1)	\$277,606	\$18,953,167
FUND BALANCES JULY 1, 2018									
PRIOR YEAR ADJUSTMENTS									
FUND BALANCES JUNE 30, 2019	\$313,425,742		(\$0)	\$4,863,139	\$188,147,968		\$0	\$955,498	\$507,392,347

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, 2019**

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 Environmental Protection Agency (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 Engineering 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 State Revolving Fund (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 mean 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, 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 the difference is called a 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 recorded at fair value based on quoted market price.

3. Cash, Cash Equivalents and Investments

Cash and Cash Equivalent

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. Cash and cash equivalents are reported at cost. Cash and cash equivalents, as identified in the Combined Balance Sheet, are as follows (In Thousands):

Held by Trustee:

First American Government Obligation	\$34,684
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Investments

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.

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.

The short- and long-term investments in the program are held in U.S. Treasury bills and notes. U.S. Treasury bills have maturities of one year or less and U.S. Treasury notes have maturities greater than one year from the date of issuance.

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 SRF minimizes credit risk by limiting securities and types of investments to the Indenture of Trust. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40.

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."

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 risks 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 following table uses effective duration as a measure of interest rate risk for all investment types. (The following table is in Thousands.)

	6/30/2019 Fair Value	Moody's Rating	Effective Duration
<u>Security Investment Types Held by Trustee</u>			
Federal Home Loan Mortgage Corp	2,714	Aaa	1.66
Federal National Mortgage Assoc.	5,361	Aaa	0.76
Total All Investments	8,075		

4. Fair Value Measurement

Investments are measured and recorded using fair value measurement guidelines established by GAAP. These guidelines recognize a three-tier fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs.

At June 30, 2019, SRF had the following recurring fair value measurements (In Thousands):

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	6/30/2019	(Level 1)	(Level 2)	(Level 3)
<u>Investments by fair value level</u>				
US Agencies	8,075		8,075	
Total Investments at Fair Value	8,075		8,075	

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 2019 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 2019, the program forgave \$1,945,700 in loans in the WPCSRF and \$3,655,769 in loans for the DWSRF programs.

The drawn and outstanding principal balance of all loans guaranteed by the WPCSRF program as of June 30, 2019, is \$300,135,102 with an allowance for loan forgiveness of \$5,490,562 resulting in a net loans outstanding balance of \$294,644,540 which includes \$3,108,298 presented as advances to other funds. The advances are inter-fund loans within 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, 2019, is \$173,353,712 with an allowance for loan forgiveness of \$4,037,272 resulting in a net loans receivable balance of \$169,316,440.

Loans mature at various intervals through July 1, 2049. The scheduled principal payments on loans and advances to other funds maturing in the years following SFY 2019 are as follows:

<u>SFY ending June 30:</u>	<u>WPCSRF Amount</u>	<u>DWSRF Amount</u>
2020	\$ 18,574,090	\$ 9,926,928
2021	21,248,085	12,254,447
2022	20,848,578	12,224,101
2023	19,881,989	12,082,000
2024 and thereafter	<u>214,091,798</u>	<u>122,828,964</u>
Total	\$ 294,644,540	\$ 169,316,440

As of June 30, 2019, the WPCSRF and DWSRF programs had authorized loans to public entities of the State of Montana that in the aggregate exceeded \$632.9 and \$345.0 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 Glendive	\$ 16,226,870	\$ 15,092,000
City of Kalispell	14,470,000	7,792,000
City of Great Falls	11,295,267	1,651,000
City of Havre*	10,437,710	8,957,000
Butte-Silver Bow County III*	10,268,000	9,157,433
Butte-Silver Bow County I	10,000,000	8,627,000
Butte-Silver Bow County II	10,000,000	8,787,000
City of Bozeman	9,573,000	6,431,000
City of Bozeman	9,500,000	5,979,000
City of Helena	<u>9,320,000</u>	<u>1,869,000</u>
Total	\$ 111,090,847	\$ 74,342,433

Drinking Water State Revolving Fund

<u>Local Agency</u>	<u>Authorized Loan Amount</u>	<u>Outstanding Balance</u>
City of Billings II	\$ 17,300,000	\$6,779,000
City of Bozeman A	10,000,000	7,191,000
City of Great Falls A	10,000,000	8,829,000
City of Great Falls B	10,000,000	9,208,000
City of Bozeman B	9,552,000	7,274,000
City of Great Falls C	8,600,000	8,093,000
City of Havre II	8,401,000	2,438,000
City of Bozeman	7,573,000	7,128,000
City of Billings III	6,759,215	4,034,000
City of Billings VI	6,100,000	5,025,000
TOTAL	\$94,285,215	\$65,999,000

* Still drawing funds.

6. Interest Receivable on Loans

The interest receivable on loans represents interest owed by borrowers as of June 30, 2019, for the July 1, 2019, payment. It represents the six months of interest accrued from the previous loan payment date of January 1, 2019. Interest receivable balances in the WPCSRF include \$388,208 in the Special Administration fund and \$1,740,374 in the Debt Service and Loan Loss Reserve funds. Interest receivable in the DWSRF includes \$254,180 in the Special Administration fund and \$982,708 in the Debt Service and Loan Loss Reserve funds. Interest receivable does not include interest payments received through June 30, 2019, that were due July 1, 2019. Interest payments received through June 30, 2019, amounted to \$1,764,097 for the WPCSRF and \$938,611 for the DWSRF.

7. Short-term Debt

The state may issue notes in anticipation of a Bond issuance. During the SFY 2019, two bond anticipation notes (BANs) were issued. The proceeds of Wastewater 2019B and Drinking Water 2019A will be used to fund water and wastewater improvements and rehabilitation.

The following schedule summarized the activity for the year ended June 30, 2019:

BANS	Begin Bal	Additions	Reductions	Ending Bal
Drinking Water-2015B	350,000	-	350,000	-
Wastewater-2017B	450,000	1,050,000	1,500,000	-
Drinking Water-2017C	900,000	1,600,000	2,500,000	-
Drinking Water-2019A ¹	-	1,400,000	-	1,400,000
Wastewater-2019B ²	-	1,190,000	-	1,190,000

¹ DW 2019A has not been fully drawn. Balance yet to draw \$1,500,000.

² WW 2019B has not been fully drawn. Balance yet to draw \$1,910,000.

8. Bonds Payable

WPCSRF general obligation bonds payable at June 30, 2019, were as follows:

Series 2013E

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2020	2%-4%	300,000	40,500	340,500
2021		300,000	31,500	331,500
2022		300,000	22,500	322,500
2023		300,000	13,500	313,500
2024		300,000	4,500	304,500
Total Cash Requirements		\$ 1,500,000	\$ 112,500	\$ 1,612,500

Series 2015C

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2020	3%-5%	870,000	1,067,600	1,937,600
2021		905,000	1,032,100	1,937,100
2022		940,000	990,500	1,930,500
2023		985,000	942,375	1,927,375
2024		1,035,000	891,875	1,926,875
2025-2029		6,010,000	3,607,750	9,617,750
2020-2034		7,680,000	1,905,000	9,585,000
2035-2036		3,630,000	183,750	3,813,750
Total Cash Requirements		\$ 22,055,000	\$ 10,620,950	\$ 32,675,950

TOTAL GENERAL OBLIGATION DEBT - WPCSRF

Payable during the year ending June 30,	Principal	Interest	Total
2020	1,170,000	1,108,100	2,278,100
2021	1,205,000	1,063,600	2,268,600
2022	1,240,000	1,013,000	2,253,000
2023	1,285,000	955,875	2,240,875
2024	1,335,000	896,375	2,231,375
2025-2029	6,010,000	3,607,750	9,617,750
2030-2034	7,680,000	1,905,000	9,585,000
2035-2036	3,630,000	183,750	3,813,750
Total Cash Requirements	\$ 23,555,000	\$ 10,733,450	\$ 34,288,450

DWSRF general obligation bonds payable at June 30, 2019, were as follows:

Series 2010B				
Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2020	2%-4%	510,000	56,463	566,463
2021		530,000	37,600	567,600
2022		295,000	22,131	317,131
2023		100,000	14,600	114,600
2024		100,000	10,600	110,600
2025-2026		215,000	8,700	223,700
Total Cash Requirements		\$ 1,750,000	\$ 150,094	\$ 1,900,094

9. Fund Balance

All 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, 2019, the state match requirement in the WPCSRF program is approximately \$40,600,000 but the state has matched additional funds of approximately \$65,700,000. As of June 30, 2019, the state match requirement in the DWSRF program is approximately \$55,000,000, but the state has matched additional funds of approximately \$7,200,000.

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 (except for "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	\$7,181,792
Adjustment Due From Federal Govt SFY 2018	3,521
Adjustment Due From Federal Govt SFY 2019	(8,439)
Other Adjustments	-
Total Federal Draws	\$7,176,874

DWSRF

Federal Revenue - Combined Statement	\$11,449,964
Adjustment Due From Federal Govt SFY 2018	79,443
Adjustment Due From Federal Govt SFY 2019	(82,577)
Other Adjustments	-
Total Federal Draws	11,446,830

12. Interest Income on Investments

This revenue represents interest earnings on investments within the funds and amortized (premiums) and accreted discounts recognized monthly and at the disposal of government securities. 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 Appreciation/(Depreciation) Income

This revenue represents the appreciation or depreciation of the investments reported from the Cash Value to the Market Value at June 30, 2019.

14. Interest Income from Loans

This revenue represents interest earnings from loan repayments made by borrowers. In SFY 2013, the SRF programs offered borrowers who issued revenue and general obligation bonds the chance to restructure their interest rates. Depending upon the term remaining to repay their loans, the new interest rates are between 1.25% and 3% as compared to current rates of 3.75% to 4%. Loans must be in compliance with the program and bond requirements. The total interest rate can be comprised of a percentage for loan interest rate, Loan Loss Reserve surcharge and Special Administration surcharge. For SFY 2019, the interest incomes for each of these components were as follows:

	<u>WPCSRF</u>	<u>DWSRF</u>
Loan Interest	\$ 5,675,486	\$ 3,163,298
Loan Loss Reserve	712,395	343,544
Special Administration	1,320,973	780,325
Total Interest Income	\$ 7,708,854	\$ 4,287,167

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 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, and 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	\$444,589
Administration - State Funds	530,371
Technical Assistance	40,012
State Program Management	1,013,920
Local Assistance	387,937
Total Administration and Set-Asides	\$2,416,829

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

WPCSRF Program Administration Detail:	
Administration - EPA Grants	\$287,354
Administration - State Funds	1,016,794
Total Administration	\$1,304,148

16. Other Financing Sources and Uses

The BAN (Intercap) Transfers represent the non-cash transfer from the BAN proceeds State Special Revenue account (fund) to the Debt Service account (fund). This transfer is required to move the BAN (Intercap) liability to the fund that will service the debt.

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. These transfers are only visible on the Regulatory Basis Financial Statements.

The Federal Capitalization Grant Transfers represent the transfer of EPA grant funds from federal special revenue funds to the Loan Accounts in state special revenue funds to fund loans that will be repaid. These transfers are 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 Fund (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 Transfer between SRF programs represents the transfer of funds from the Drinking Water Recycled/Principal account to the Wastewater Recycled/Principal account per the intended use plans for both programs. The transfer has been authorized by all related parties including EPA, DEQ, DNRC and the Governor of the State of Montana.

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 bonds for the purpose of making private sale loans. 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 \$3,108,298, 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

A General Obligation Bond Anticipation Note (BAN), for the Water Pollution Control State Revolving Fund Program has been authorized but not issued for \$4,000,000. This will be an Intercap Loan from the Montana Board of Investments (BOI). BOI has approved the loan. No funds had been drawn as of fiscal year end June 30, 2019 and therefore the liability for these funds is not reflected on the financial statements.

A General Obligation Bond Anticipation Note (BAN), for the Drinking Water State Revolving Fund Program has been authorized but not issued for \$3,400,000. This will be an Intercap Loan

from the Montana Board of Investments (BOI). BOI has approved the loan. No funds had been drawn as of fiscal year end June 30, 2019 and therefore the liability for these funds is not reflected on the financial statements.

The 2010B GO Bonds for the Drinking Water State Revolving Fund Program were paid off in February 2020.

**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, 2019**

ASSETS	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	
Cash and Cash Equivalents	\$16,418,552	\$2,035,510	\$1,878,490	\$2,433,847	\$8,761,500	\$1,780,502	\$745,969	\$629,607	\$34,683,977
Interest Receivable on Loans		388,208	1,537,233	203,141		254,180	868,336	114,372	\$3,365,470
Due from Federal Government	8,439				82,579				\$91,018
Due From Other BU or Fund			2,021						\$2,021
Investments					8,074,776				\$8,074,776
Loans Receivable	\$297,026,804								
Less Allowance for Loan Forgiveness	(5,490,562)								
Advances to Other Funds	3,108,298								
Prepaid Expense					2,049				\$3,108,298
Total Assets	\$311,071,532	\$2,423,718	\$3,417,744	\$2,636,988	\$186,237,344	\$2,034,682	\$1,614,306	\$743,979	\$510,180,292
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts Payable		\$343							\$343
Loans Payable	\$2,035	13,921			\$26,750	\$7,113			\$49,819
Vouchers Payable		17,527			3,133	89			\$20,749
Payroll Payable	8,128	25,532			54,677	32,049			\$120,386
Due to Other BU or Fund		2,021	\$1,592				\$2,787		\$6,401
Unearned Revenue					245				\$245
Advance from BAN (Intercep) Payable			1,190,000				1,400,000		\$2,590,000
Total Liabilities	\$10,163	\$59,344	\$1,191,592	\$0	\$84,805	\$39,251	\$1,402,787	\$0	\$2,787,943
Fund Balances									
Fund Balance-Restricted	311,061,368	2,364,374	2,226,151	2,636,988	186,152,538	1,995,431	211,519	743,979	507,392,348
Total Liabilities and Fund Balances	\$311,071,532	\$2,423,718	\$3,417,744	\$2,636,988	\$186,237,344	\$2,034,682	\$1,614,306	\$743,979	\$510,180,292

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, 2019**

	WATER POLLUTION CONTROL SPECIAL REVENUE		WATER POLLUTION CONTROL DEBT SERVICE FUND		DRINKING WATER SPECIAL REVENUE		DRINKING WATER DEBT SERVICE FUND		TOTAL (MEMORANDUM ONLY)
	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	
REVENUES:									
Federal Capitalization Grant Revenue	\$7,181,792				\$11,449,964				\$18,631,757
Interest Income on Investments	229,362	\$29,920	\$9,458	\$41,657	280,291		\$3,805	\$9,986	\$632,781
Investment Appr/Depr Inc	0	0	0	0	137,807				\$137,807
Interest Income from Loans		1,320,973	5,675,486	7,12,395		780,325	3,163,298	343,543	\$11,996,021
Other Income	27				316				\$343
Total Revenues	\$7,411,182	\$1,350,893	\$5,684,944	\$754,053	\$11,868,378	\$808,627	\$3,167,103	\$353,529	\$31,398,709
EXPENDITURES:									
Program Administration/Set-Asides	\$341,112	\$963,037	\$0	\$0	\$1,886,458	\$530,371	\$0	\$0	\$3,720,977
Total Expenditures	\$341,112	\$963,037	\$0	\$0	\$1,886,458	\$530,371	\$0	\$0	\$3,720,977
Excess Revenues Over/(Under) Expenditures	\$7,070,070	\$387,856	\$5,684,944	\$754,053	\$9,981,920	\$278,256	\$3,167,103	\$353,529	\$27,677,731
OTHER FINANCING SOURCES:									
Operating Transfers In:									
BAN (Intercept) Transfers	\$2,240,000				\$3,000,000				\$5,240,000
Debt Service Sweeps	449,084				326,817				\$775,901
Loan Loss Reserve Sweeps	593,757		\$342,659				\$327,907		\$1,264,324
Investment Earnings Transfers	41,657		53,416		9,986		\$7,948		\$113,006
Investment Account Transfer			330,000				\$677,250		\$1,007,250
Transfer to Wastewater from Drinking Water	3,000,000								\$3,000,000
Total Other Financing Sources	\$6,324,499	\$0	\$726,075	\$0	\$3,336,803	\$0	\$1,013,105	\$0	\$11,400,481
OTHER FINANCING USES:									
Bond Principal							\$495,000		\$3,040,000
Bond/BAN (Intercept) Interest			\$2,545,000				96,421		\$1,290,535
Loan Forgiveness	\$1,869,532		1,194,114		\$2,524,495				\$4,394,027
Operating Transfers Out:									
BAN (Intercept) Transfer			2,240,000				3,000,000		\$5,240,000
Debt Service Sweeps			449,084				326,817		\$775,901
Loan Loss Reserve Sweeps								\$327,907	\$1,264,324
Investment Earnings Transfers	53,416				7,948		9,986		\$113,006
Investment Account Transfer	330,000				677,250				\$1,007,250
Transfer from Drinking Water to Wastewater	\$2,252,948	\$0	\$6,428,198	\$978,074	\$6,209,693	\$0	\$3,918,238	\$337,893	\$3,000,000
Total Other Financing Uses			\$6,428,198	\$978,074	\$6,209,693	\$0	\$3,918,238	\$337,893	\$20,125,043
Excess (deficiency) of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	\$11,141,621	\$387,856	(\$17,179)	(\$224,022)	\$7,109,029	\$278,256	\$261,970	\$15,636	\$18,953,168
FUND BALANCES JULY 1, 2018	299,919,747	1,976,517	2,243,330	2,861,009	179,043,509	1,717,175	(50,451)	728,342	488,439,178
PRIOR YEAR ADJUSTMENTS									0
FUND BALANCES JUNE 30, 2019	\$311,061,368	\$2,364,373	\$2,226,151	\$2,636,988	\$186,162,538	\$1,995,431	\$211,519	\$743,979	\$507,392,347

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

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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 the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements the Montana Water Pollution Control and Drinking Water State Revolving Fund programs (programs), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the programs' basic financial statements, and have issued our report thereon dated February 25, 2020.

Internal Control Over Financial Reporting

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

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 a 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 internal controls 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 from 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 controls or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the programs' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 25, 2020

DEPARTMENT OF
ENVIRONMENTAL QUALITY

DEPARTMENT OF
NATURAL RESOURCES
AND CONSERVATION

DEPARTMENTS' RESPONSES

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION



STEVE BULLOCK, GOVERNOR

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HELENA, MONTANA 59620-1601

March 16, 2020

Angus Maciver
Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

Dear Mr. Maciver:

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, 2019. 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 Greiberis
Chief Financial Officer, DNRC

Shaun McGrath
Director, DEQ

Brenda Thomas
Chief Financial Officer, DEQ

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