



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

19-25B

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, 2020*

MARCH 2021

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, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by March 31, 2022.

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

March 2021

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, 2020. 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 departments' management teams 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, 2020, meaning 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

Chris Dorrington, Director (as of January 2021)

Shaun McGrath, Director (through December 2020)

George Mathieus, Deputy Director

Cassy Anderson, Chief Financial Officer, Fiscal Services

Kevin Smith, Bureau Chief, Engineering Bureau

Department of Natural Resources and Conservation

Amanda Kaster, Director (as of January 2021)

John E. Tubbs, Director (through December 2020)

Kerry Davant, Deputy Director

Rex Renk, Chief of Staff

Patricia Greiberis, Chief Financial Officer, Financial Services Office

Anna Miller, Deputy Administrator, Conservation and Resource
Development Division

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

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, 2020

BACKGROUND

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).

The programs offer loan agreements with 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 and 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.

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 loan balance was approximately \$300 million in the Water Pollution Control State Revolving Fund (WPCSRF) program and approximately \$173 million in the Drinking Water State Revolving Fund (DWSRF) program as of June 30, 2020. The audit resulted in no recommendations, and we have issued an unmodified opinion on the financial statements.

AUDITOR'S OPINION: **UNMODIFIED**

We found the programs' financial statements presented fairly the activity of the programs in all material respects and issued an unmodified opinion on the financial statements, which are prepared in accordance with Generally Accepted Accounting Principles. This means a reader can rely on the information presented and the underlying financial records.

For the full context of the program's financial activity, see the financial statements and notes beginning on page A-5.

SUMMARY OF AUDIT WORK:

We performed work over the balances for loans and cash and cash equivalents. 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 the previous year, 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 and applicable state laws and federal regulations.

We performed work over the supplementary information (SI). The SI consists of financial statements prepared on a regulatory basis. The regulatory basis

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

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is the format required by the Environmental Protection Agency. The statements show the separated activity of the revolving and nonrevolving funds. We compared the SI to the combined financial statements prepared on the Generally Accepted Accounting Principles basis. We obtained an understanding about the preparation of the SI to determine whether the methods of preparing the SI have changed from those used in the prior period. We inquired of management about any significant assumptions or interpretations underlying the measurement or presentation of the SI.

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):

In this report, we identified the following:

Material Weaknesses in Internal Control: 0

Significant Deficiencies in Internal Control: 0

Material Non-Compliance: 0

Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

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, 2020.
2. Determine whether the programs complied with state laws and federal regulations that are fundamental or 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 the previous year, 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 and applicable state laws and federal regulations. We relied on work completed for the Department of Natural Resources and Conservation financial-compliance audit, which involved the confirmation of loan balances.

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 nonrevolving 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.

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 and projects. 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, 2020, the loans receivable balance for the WPCSRF program was approximately \$300 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 \$42.2 million. In addition to the required match, the state has contributed additional funds of approximately \$68.1 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. The amount forgiven for loans for the WPCSRF program was approximately \$316,000 in fiscal year 2020. 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 2020, 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, 2020, the outstanding balance of loans receivable for the DWSRF program was \$173 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 \$57.2 million. In addition to the required match, the state has contributed additional funds of over \$8.4 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. The amount forgiven for loans for the DWSRF program was approximately \$2.6 million in fiscal year 2020. 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 2020, the intent of loan forgiveness was to provide support to lower-income communities.

WPCSRF and DWSRF Programs

As of June 30, 2020, the programs had a combined total of approximately \$21.2 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 BANs. As of June 30, 2020, the funds for the remaining BANs for the WPCSRF and DWSRF had not been fully drawn. The balances available for each program were approximately \$1.1 million, and \$1.9 million, respectively.

Tables 1 and 2 (see pages 5 and 6) are provided for informational purposes. The tables contain information concerning the loans closed during fiscal year 2020 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 include the portion of loan available for forgiveness for the recipient and the amount available to loan for the project. The projects can receive funding in addition to the SRF funding. The additional funding is also included in the tables. Columns highlighted in green represent SRF funding.

Table 1
Water Pollution Control State Revolving Fund Projects Closed as of June 30, 2020

Project Sponsor	Water Project Description	County	Total Project Cost	Renewable Resource Grant & Loan State Grant*	Treasure State Endowment Program State Grant*	Portion of Loan Eligible for Forgiveness	State Revolving Fund Loan Regular**	Federal Army Corp Water Resources Development Act*	Community Funds Local*	Coal Board*	Community Development Block Grant*
City of Belgrade	Wastewater Treatment Plant Improvements	Gallatin	\$2,000,000				\$2,000,000				
Town of Broadus	Lift Station and Lagoon Improvements	Powder River	\$1,375,500			\$230,500	\$945,000			\$200,000	
Dawson County	Wastewater Loan Restructure	Dawson	\$1,962,760				\$1,962,760				
Town of Eureka	Wastewater System Expansion	Lincoln	\$2,096,000		\$555,000	\$163,000	\$746,000	\$182,000			\$450,000
Community of Four Corners	Water Reclamation Facility	Gallatin	\$13,468,967			\$300,000	\$11,300,000		\$1,868,967		
City of Glendive	Meade Avenue Distribution Lines	Dawson	\$535,551				\$496,000		\$39,551		
City of Great Falls	Storm Drain Project	Cascade	\$1,500,000				\$1,500,000				
City of Helena	Westside Wastewater Lines	Lewis & Clark	\$3,504,000		\$750,000		\$2,754,000				
Lincoln Lewis and Clark County Sewer District	Wastewater System Improvements	Lewis & Clark	\$538,900			\$108,900	\$430,000				
City of Malta	Emergency Wastewater Improvements	Phillips	\$430,000			\$100,000	\$330,000				
Town of Manhattan	Wastewater System Improvements	Gallatin	\$1,794,800		\$611,800	\$153,000	\$1,030,000				
Resource Development Bureau 22	Various Projects	Various Counties	\$1,000,000				\$1,000,000				
City of Shelby	Wastewater Phase III Lagoon	Toole	\$954,000				\$954,000				
City of Shelby	Wastewater Phase III Liner	Toole	\$746,000				\$746,000				
City of Whitefish	Wastewater Plant Upgrade	Flathead	\$15,269,885	\$125,000	\$625,000	\$350,000	\$10,000,000	\$270,000	\$3,899,885		
		Totals	\$47,176,363	\$125,000	\$2,541,800	\$1,405,400	\$36,193,760	\$452,000	\$5,808,403	\$200,000	\$450,000
					State Revolving Fund Total		\$37,599,160				

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, 2020

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*	Portion of Loan Eligible for Forgiveness	State Revolving Fund Loan Regular**	Rural Development Grant*	Rural Development Loan*	Federal Army Corp Water Resources Development Act*	Community Funds Local*	Coal Board*
Town of Denton	Replace Transmission Main Tank	Fergus	\$724,000					\$724,000					
Town of Dodson	New Pumphouse and Connections	Phillips	\$28,000					\$28,000					
Emerald Heights Home Owners Association Water District	Replacement Well, Tank, and Lines	Flathead	\$184,000				\$92,000	\$92,000					
City of Glendive	Meade Avenue Distribution Lines	Dawson	\$536,551					\$497,000				\$39,551	
City of Glendive	Water Treatment Plant	Dawson	\$10,106,890				\$500,000	\$7,000,000				\$2,606,890	
City of Harlowton	Water Line Replacements	Wheatland	\$2,563,000		\$750,000	\$450,000	\$391,500	\$391,500			\$580,000		
City of Helena	Tenmile Transmission Line	Lewis & Clark	\$6,165,000					\$5,700,000				\$465,000	
City of Kalispell	Refinance	Flathead	\$457,457					\$365,648				\$91,809	
City of Kalispell	Water Distribution Upgrades	Flathead	\$2,598,000					\$2,598,000					
City of Roundup	Water Line Replacements	Musselshell	\$2,927,000	\$125,000	\$750,000	\$450,000	\$408,000	\$494,000				\$300,000	\$400,000
Town of Sheridan	Well, Transmission and Distributions Lines	Madison	\$3,230,650		\$625,000		\$500,000	\$601,000	\$996,000	\$400,000		\$108,650	
		Totals	\$29,520,548	\$125,000	\$2,125,000	\$900,000	\$1,891,500	\$18,491,148	\$996,000	\$400,000	\$580,000	\$3,611,900	\$400,000
						State Revolving Fund Total		\$20,382,648					

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 loan for the project from the Drinking Water State Revolving Fund Program. The project sponsor is not required to borrow the full amount.

**Independent Auditor's Report,
Programs' Financial Statements,
and Supplementary Information**

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

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, 2020, 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 financial position of the programs as of June 30, 2020, 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. The financial statements do not purport to, and do not, present fairly the financial position of the state of Montana as of June 30, 2020, 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 Matter

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, 2020, 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 19, 2021, 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 19, 2021

**MONTANA WATER POLLUTION CONTROL AND DRINKING WATER
STATE REVOLVING FUND PROGRAMS
COMBINED BALANCE SHEET
SPECIAL REVENUE AND DEBT SERVICE FUNDS
JUNE 30, 2020**

WATER POLLUTION CONTROL

	STATE SPECIAL REVENUE	FEDERAL SPECIAL REVENUE	DEBT SERVICE
ASSETS			
Cash and Cash Equivalents	\$ 22,394,119		\$ 4,201,297
Interest Receivable on Loans Due from Federal Government	368,229		1,904,841
Investments			
Loans Receivable	\$ 300,027,532	\$ 6,664,389	
Less Allowance for Loan Forgiveness	-	(6,664,389)	
Advances to Other Funds	300,027,532		
	3,216,794		
Total Assets	\$ 326,026,674	\$ -	\$ 6,106,138
LIABILITIES AND FUND BALANCES			
Liabilities:			
Loans Payable	\$ 8,800		
Vouchers Payable	1		
Payroll Payable	39,058		
Due to Other BU or Fund			\$ 1,428
Unearned Revenue			
Advance from BAN (Intercept) Payable			1,100,000
Total Liabilities	\$ 47,859	\$ -	\$ 1,101,428
Fund Balances:			
Fund Balance-Restricted	\$ 325,978,815		\$ 5,004,710
Total Liabilities and Fund Balances	\$ 326,026,674	\$ -	\$ 6,106,138

DRINKING WATER

	STATE SPECIAL REVENUE	FEDERAL SPECIAL REVENUE	DEBT SERVICE	(MEMORANDUM ONLY) TOTAL
ASSETS				
Cash and Cash Equivalents	\$ 21,647,064	\$ 201	\$ 934,809	\$ 49,177,490
Interest Receivable on Loans Due from Federal Government	260,876		1,047,705	3,601,651
Investments				82,919
Loans Receivable	\$ 172,607,800	\$ 3,414,827		2,755,102
Less Allowance for Loan Forgiveness	-	(3,414,827)		
Advances to Other Funds	172,607,800			472,635,332
				3,216,794
Total Assets	\$ 197,270,842	\$ 83,120	\$ 1,982,514	\$ 531,469,288
LIABILITIES AND FUND BALANCES				
Liabilities:				
Loans Payable	\$ 9,200	\$ 22,984		\$ 40,984
Vouchers Payable	80	3,168		3,249
Payroll Payable	35,398	56,770		131,226
Due to Other BU or Fund			\$ 13,876	15,304
Unearned Revenue		198		198
Advance from BAN (Intercept) Payable			1,900,000	3,000,000
Total Liabilities	\$ 44,676	\$ 83,120	\$ 1,913,876	\$ 3,190,961
Fund Balances:				
Fund Balance-Restricted	\$ 197,226,164	\$ -	\$ 68,638	\$ 528,278,327
Total Liabilities and Fund Balances	\$ 197,270,842	\$ 83,120	\$ 1,982,514	\$ 531,469,288

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, 2020

WATER POLLUTION CONTROL

	WATER POLLUTION CONTROL			DRINKING WATER		
	STATE SPECIAL REVENUE	FEDERAL REVENUE	DEBT SERVICE	STATE SPECIAL REVENUE	FEDERAL REVENUE	DEBT SERVICE
REVENUES:						
Federal Capitalization Grant Revenue						
Interest Income on Investments	\$ 211,857	\$ 10,762,221	\$ 32,356	\$	\$ 9,435,024	\$ 9,485
Investment Appr/Depr Income				249,680		53,931
Interest Income from Loans	1,263,972		6,591,510	53,931		3,709,279
Other Income				753,022	245	
TOTAL REVENUES	\$ 1,475,829	\$ 10,762,221	\$ 6,623,866	\$ 1,056,633	\$ 9,435,269	\$ 3,718,744
EXPENDITURES:						
Program Administration/Set-Asides						
TOTAL EXPENDITURES	\$ 844,461	\$ 354,876	\$ -	\$ 528,534	\$ 1,710,462	\$ -
Excess Revenues Over (Under) Expenditures	\$ 631,368	\$ 10,407,345	\$ 6,623,866	\$ 528,099	\$ 7,724,807	\$ 3,718,744

OTHER FINANCING SOURCES:

Operating Transfers In:						
BAN (Intercept) Transfers	\$ 3,010,000			\$ 2,800,000		\$ 5,810,000
Debt Service Sweeps						
Federal Capitalization Grant Transfers	8,917,268			5,784,652		14,701,920
Investment Earnings Transfers	24,969		\$ 29,533	5,830		5,886
Investment Fund (Account) Transfer			1,000			34,500
Total Other Financing Sources	\$ 11,952,238	\$ -	\$ 30,533	\$ 8,590,483	\$ -	\$ 40,386

OTHER FINANCING USES:

Bond Principal		\$ 2,370,000		\$	\$ 1,750,000	
Bond/BAN (Intercept) Interest		1,107,858			90,159	
Loan Forgiveness			1,490,077		1,940,155	
Operating Transfers Out:						
BAN (Intercept) Transfer		3,010,000			2,800,000	5,810,000
Debt Service Sweeps						
Federal Capitalization Grant Transfers			8,917,268		5,784,652	14,701,920
Investment Earnings Transfers	\$ 29,533		24,969	\$ 5,886		5,830
Investment Fund (Account) Transfer	1,000			34,500		35,500
Total Other Financing Uses	\$ 30,533	\$ 10,407,345	\$ 6,512,828	\$ 40,386	\$ 7,724,807	\$ 4,645,990

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

	\$ 12,553,073	\$ -	\$ 141,571	\$ 9,078,196	\$ -	\$ (886,860)
FUND BALANCES JULY 1, 2019						\$ 20,885,980
PRIOR YEAR ADJUSTMENTS	\$ 313,425,742	\$ -	\$ 4,863,139	\$ 188,147,968	\$ -	\$ 955,498
FUND BALANCES JUNE 30, 2020	\$ 325,978,815	\$ -	\$ 5,004,710	\$ 197,226,164	\$ -	\$ 528,278,327

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, 2020**

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:

Held by Trustee:

First American Government Obligation	\$49,177,233
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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.

	6/30/2020 Fair Value	Moody's Rating	Effective Duration
<u>Security Investment Types Held by Trustee</u>			
Federal National Mortgage Assoc.	\$2,755,102	Aaa	0.66
Total All Investments	<u><u>\$2,755,102</u></u>		

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, 2020, SRF had the following recurring fair value measurements:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	6/30/2020	(Level 1)	(Level 2)	(Level 3)
<u>Investments by fair value level</u>				
US Agencies	\$2,755,102		\$2,755,102	
Total Investments at Fair Value	\$2,755,102		\$2,755,102	

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 2020 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 2020, the program forgave \$316,250 in loans in the WPCSRF and \$2,562,600 in loans for the DWSRF programs.

The drawn and outstanding principal balance of all loans guaranteed by the WPCSRF program as of June 30, 2020, is \$309,908,715 with an allowance for loan forgiveness of \$6,664,389 resulting in a net loans outstanding balance of \$303,244,326 which includes \$3,216,794 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, 2020, is \$176,022,627 with an allowance for loan forgiveness of \$3,414,827 resulting in a net loans receivable balance of \$172,607,800.

Loans mature at various intervals through July 1, 2050. The scheduled principal payments on loans and advances to other funds maturing in the years following SFY 2020 are as follows:

<u>SFY ending June 30:</u>	<u>WPCSRF Amount</u>	<u>DWSRF Amount</u>
2021	\$ 19,019,432	\$ 10,557,108
2022	21,730,282	12,754,194
2023	22,314,799	12,781,500
2024	19,140,326	12,495,497
2025	17,882,400	12,012,648
2026 and thereafter	<u>199,940,293</u>	<u>112,006,853</u>
Total	\$ 300,027,532	\$ 172,607,800

As of June 30, 2020, the WPCSRF and DWSRF programs had authorized loans to public entities of the State of Montana that in the aggregate exceeded \$670.0 and \$365.0 million, respectively. The outstanding balances of the largest loans in each portfolio are as follows:

<u>Water Pollution Control State Revolving Fund</u>		
<u>Local Agency</u>	<u>Authorized Loan Amount</u>	<u>Outstanding Balance</u>
City of Glendive	\$ 16,226,870	\$14,695,000
City of Kalispell	14,470,000	6,951,000
City of Great Falls	11,295,267	999,000
City of Havre	10,437,710	8,512,000
Butte-Silver Bow County III	10,268,000	8,855,000
Butte-Silver Bow County I	10,000,000	8,301,000
Butte-Silver Bow County II	10,000,000	8,465,000
City of Bozeman	9,573,000	5,978,000
City of Whitefish*	10,000,000	1,205,026
Four Corners WSD*	11,300,000	6,638,641
Total	\$113,570,847	\$70,599,667

* Still drawing funds.

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	\$5,799,000
City of Bozeman A	10,000,000	6,731,000
City of Great Falls A	10,000,000	8,406,000
City of Great Falls B	10,000,000	8,797,000
City of Bozeman B	9,552,000	6,849,000
City of Great Falls C	8,600,000	7,744,000
City of Havre II	8,401,000	1,917,000
City of Bozeman	7,573,000	6,820,000
City of Glendive B	7,000,000	2,823,530
City of Billings III	6,759,215	3,702,000
TOTAL	\$95,185,215	\$59,588,530

6. Interest Receivable on Loans

The interest receivable on loans represents interest owed by borrowers as of June 30, 2020, for the July 1, 2020, payment. It represents the six months of interest accrued from the previous loan payment date of January 1, 2020. Interest receivable balances in the WPCSRF include \$388,229 in the Special Administration fund and \$1,904,841 in the Debt Service and Loan Loss Reserve funds. Interest receivable in the DWSRF includes \$260,876 in the Special Administration fund and \$1,047,705 in the Debt Service and Loan Loss Reserve funds. Interest receivable does not include interest payments received through June 30, 2020, that were due July 1, 2020. Interest payments received through June 30, 2020, amounted to \$1,644,180 for the WPCSRF and \$932,610 for the DWSRF.

7. Short-term Debt

The state may issue notes in anticipation of a Bond issuance. During SFY 2020, two bond anticipation notes (BANs) were issued. The proceeds of Wastewater 2019D and Drinking Water 2020D will be used to fund water and wastewater improvements and rehabilitation.

The following schedule summarized the activity for the year ended June 30, 2020:

BANS	Begin Bal	Additions	Reductions	Ending Bal
Drinking Water-2019A	\$ 1,400,000	\$ 1,500,000	\$ 2,300,000	\$ 600,000
Drinking Water-2019D ¹	-	1,300,000	-	1,300,000
Wastewater-2019B	1,190,000	1,910,000	3,100,000	-
Wastewater-2020D ²	-	1,100,000	-	1,100,000
Total	\$ 2,590,000	\$ 5,810,000	\$ 5,400,000	\$ 3,000,000

¹ DW 2019D has not been fully drawn. Balance yet to draw \$2,100,000.

² WW 2020D has not been fully drawn. Balance yet to draw \$2,900,000.

8. Bonds Payable

WPCSRF general obligation bonds payable at June 30, 2020, were as follows:

Series 2015C

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2021	3%-5%	1,865,000	1,008,100	2,873,100
2022		940,000	942,500	1,882,500
2023		985,000	894,375	1,879,375
2024		1,035,000	843,875	1,878,875
2025		1,090,000	790,750	1,880,750
2026-2030		6,310,000	3,059,750	9,369,750
2031-2035		7,460,000	1,311,500	8,771,500
2036		1,500,000	37,500	1,537,500
Total Cash Requirements		<u>\$ 21,185,000</u>	<u>\$ 8,888,350</u>	<u>\$ 30,073,350</u>

WPCSRF GO 2013E was paid off early in FY 2020.

DWSRF GO 2010B was paid off early in FY 2020.

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, 2020, the state match requirement in the WPCSRF program is approximately \$42,190,000 but the state has matched additional funds of approximately \$68,147,000. As of June 30, 2020, the state match requirement in the DWSRF program is approximately \$57,225,000, but the state has matched additional funds of approximately \$8,400,000.

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:

<u>WPCSRF</u>	
Federal Revenue - Combined Statement	\$10,762,221
Adjustment Due From Federal Govt SFY 2019	8,439
Adjustment Due From Federal Govt SFY 2020	-
Other Adjustments	-
Total Federal Draws	\$10,770,660

<u>DWSRF</u>	
Federal Revenue - Combined Statement	\$9,435,024
Adjustment Due From Federal Govt SFY 2019	82,579
Adjustment Due From Federal Govt SFY 2020	(82,918)
Other Adjustments	-
Total Federal Draws	\$9,434,685

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, 2020.

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 2.5%. 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 2020, the interest incomes for each of these components were as follows:

	<u>WPCSRF</u>	<u>DWSRF</u>
Loan Interest	\$ 5,871,783	\$ 3,342,107
Loan Loss Reserve	719,727	367,172
Special Administration	<u>1,263,972</u>	<u>753,022</u>
Total Interest Income	\$ 7,855,482	\$ 4,462,301

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	\$ 443,058
Administration - State Funds	528,534
Technical Assistance	13,975
State Program Management	1,191,963
Local Assistance	<u>61,467</u>
Total Administration and Set-Asides	\$2,238,997

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

WPCSRF Program Administration Detail:

Administration - EPA Grants	\$ 354,876
Administration - State Funds	<u>844,461</u>
Total Administration	\$1,199,337

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 or 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 entries are eliminated on the GAAP 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.

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 \$3,216,794, have interest rate 2.5% and are repaid over 15 years. These loans are presented as Advances to Other Funds on the balance sheets.

18. Subsequent Events

On October 20, 2020, Series 2020J General Obligation (GO) Bond for the Water Pollution Control SRF Program was issued for \$24.8 million. The bond proceeds were used to refund the outstanding balance on the 2015C GO bonds of \$19.3 million and will be used to make new Water Pollution

Control SRF loans by matching federal capitalization grant funds from the Environmental Protection Agency.

On November 16, 2020, The Board of Examiners authorized \$8.0 million general obligation bond anticipated note, \$4.0 million for the Water Pollution Control and \$4.0 million for the Drinking Water State Revolving Fund Programs, neither of which have been issued.

On December 23, 2020, DNRC issued taxable Series 2020N general obligation bond anticipation note for the Drinking Water State Revolving Fund Program, in the amount of \$3.2 million. \$62,500 has been drawn of the \$3.2 million.

On July 15 ,2020, DNRC paid off the Drinking Water 2019A BAN balance of \$600,000.

On January 15 ,2021, DNRC paid off Wastewater 2020D BAN balance of \$2,000,000.

On January 15 ,2021, DNRC prepaid principal of \$2,001,000 on the Drinking Water 2019D BAN.

On February 3, 2021, DNRC prepaid principal of \$450,000 on the Drinking Water 2019D BAN.

**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, 2020**

	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	\$ 19,859,428	\$ 2,534,891	\$ 2,400,254	\$ 1,801,043	\$ 19,622,214	\$ 2,025,050	\$ 756,314	\$ 178,496	\$ 49,177,490
Interest Receivable on Loans		398,229	1,676,607	228,234		260,876	927,296	120,409	3,601,651
Due from Federal Government					82,919				82,919
Investments					2,755,102				2,755,102
Loans Receivable	\$ 306,691,921								
Less Allowance for Loan Forgiveness	(6,664,369)	300,027,532			\$ 176,022,627				472,635,332
Advances to Other Funds		3,216,794			(3,414,827)				3,216,794
Total Assets	\$ 323,103,754	\$ 2,922,920	\$ 4,076,861	\$ 2,029,277	\$ 195,068,035	\$ 2,285,926	\$ 1,683,610	\$ 298,905	\$ 531,469,288
LIABILITIES AND FUND BALANCES									
Liabilities:									
Loans Payable		\$ 8,800			\$ 22,984	\$ 9,200			\$ 40,984
Vouchers Payable					3,168	80			3,249
Payroll Payable					56,770	35,398			131,226
Due to Other BU or Fund			\$ 1,428				\$ 13,876		15,304
Unearned Revenue					198				198
Advance from BAN (Intercep) Payable			1,100,000				1,900,000		3,000,000
Total Liabilities	\$ -	\$ 47,859	\$ 1,101,428	\$ -	\$ 83,120	\$ 44,678	\$ 1,913,876	\$ -	\$ 3,190,961
Fund Balances									
Fund Balance-Restricted	\$ 323,103,754	\$ 2,875,061	\$ 2,975,433	\$ 2,029,277	\$ 194,984,915	\$ 2,241,248	\$ (230,266)	\$ 298,905	\$ 528,278,327
Total Liabilities and Fund Balances	\$ 323,103,754	\$ 2,922,920	\$ 4,076,861	\$ 2,029,277	\$ 195,068,035	\$ 2,285,926	\$ 1,683,610	\$ 298,905	\$ 531,469,288

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, 2020**

	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	
REVENUES:									
Federal Capitalization Grant Revenue	\$ 10,762,221				\$ 9,435,024				\$ 20,197,245
Interest Income on Investments	187,360	\$ 24,498	\$ 7,387	\$ 24,969	228,350	\$ 21,329	\$ 3,635	\$ 5,831	503,359
Investment Appr/Depr Inc					53,931				53,931
Interest Income from Loans		1,263,972	5,871,783	719,727		753,022	3,342,107	367,172	12,317,783
Other Income					245				245
Total Revenues	\$ 10,949,581	\$ 1,288,470	\$ 5,879,170	\$ 744,696	\$ 9,717,550	\$ 774,351	\$ 3,345,742	\$ 373,003	\$ 33,072,563
EXPENDITURES:									
Program Administration/Set-Asides	\$ 421,555	\$ 777,782	\$ -	\$ -	\$ 1,710,463	\$ 528,534	\$ -	\$ -	\$ 3,438,334
Total Expenditures	\$ 421,555	\$ 777,782	\$ -	\$ -	\$ 1,710,463	\$ 528,534	\$ -	\$ -	\$ 3,438,334
Excess Revenues Over/(Under) Expenditures	\$ 10,528,026	\$ 510,688	\$ 5,879,170	\$ 744,696	\$ 8,007,087	\$ 245,817	\$ 3,345,742	\$ 373,003	\$ 29,634,229
OTHER FINANCING SOURCES:									
Operating Transfers In:									
BAN (Intercept) Transfers	\$ 3,010,000				\$ 2,800,000				\$ 5,810,000
Debt Service Sweeps	1				1				2
Loan Loss Reserve Sweeps			\$ 1,327,438				\$ 812,247		2,139,685
Investment Earnings Transfers	24,969		29,533		5,830		5,886		66,218
Investment Account Transfer			1,000				34,500		35,500
Total Other Financing Sources	\$ 3,034,970	\$ -	\$ 1,357,971	\$ -	\$ 2,805,831	\$ -	\$ 852,633	\$ -	\$ 8,051,405
OTHER FINANCING USES:									
Bond Principal			\$ 2,370,000				\$ 1,750,000		\$ 4,120,000
Bond/BAN (Intercept) Interest			1,107,858				90,159		1,198,017
Loan Forgiveness									3,430,232
Operating Transfers Out:									
BAN (Intercept) Transfer			3,010,000				2,800,000		5,810,000
Debt Service Sweeps			1				1		2
Loan Loss Reserve Sweeps				\$ 1,327,438				\$ 812,247	2,139,685
Investment Earnings Transfers	29,533			24,969				5,830	66,218
Investment Account Transfer	1,000								35,500
Total Other Financing Uses	\$ 1,520,610	\$ -	\$ 6,487,859	\$ 1,352,407	\$ 1,980,541	\$ -	\$ 4,640,160	\$ 818,077	\$ 16,799,654
Excess (deficiency) of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	\$ 12,042,386	\$ 510,688	\$ 749,282	\$ (607,711)	\$ 8,832,377	\$ 245,817	\$ (441,785)	\$ (445,074)	\$ 20,885,979
FUND BALANCES JULY 1, 2019	\$ 311,061,368	\$ 2,364,373	\$ 2,226,151	\$ 2,636,988	\$ 186,152,538	\$ 1,995,431	\$ 211,519	\$ 743,979	\$ 507,392,347
PRIOR YEAR ADJUSTMENTS	-	-	-	-	-	-	-	-	-
FUND BALANCES JUNE 30, 2020	\$ 323,103,754	\$ 2,875,061	\$ 2,975,433	\$ 2,029,277	\$ 194,984,915	\$ 2,241,248	\$ (230,266)	\$ 298,905	\$ 528,278,326

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
William Soller

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 of the Montana Water Pollution Control and Drinking Water State Revolving Fund programs (programs), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the programs' basic financial statements, and have issued our report thereon dated February 19, 2021.

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 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 19, 2021

DEPARTMENT OF
ENVIRONMENTAL QUALITY

DEPARTMENT OF
NATURAL RESOURCES
AND CONSERVATION

DEPARTMENTS' RESPONSE

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION



GREG GIANFORTE, GOVERNOR

1539 ELEVENTH AVENUE

STATE OF MONTANA

DIRECTOR'S OFFICE: (406) 444-2074
FAX: (406) 444-2684PO BOX 201601
HELENA, MONTANA 59620-1601

March 19, 2021

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

RECEIVED
March 25, 2021
LEGISLATIVE AUDIT DIV.

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, 2020. 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,

Handwritten signature of Amanda Kaster in black ink.

Amanda Kaster
Director, DNRC

Handwritten signature of Patricia Greiberis in blue ink.

Patricia Greiberis
Chief Financial Officer, DNRC

Handwritten signature of Christopher Dorrington in green ink.

Christopher Dorrington
Director, DEQ

Handwritten signature of Cassy Anderson in blue ink.

Cassy Anderson
Chief Financial Officer, DEQ