

STATE OF IDAHO
DEPARTMENT OF ENVIRONMENTAL QUALITY

CLEAN WATER

STATE REVOLVING FUND

ANNUAL REPORT

for
Fiscal Year 2001
July 1, 2000 - June 30, 2001



TABLE OF CONTENTS

INTRODUCTION 1

LONG-TERM GOALS AND ACCOMPLISHMENTS 3

SHORT-TERM GOALS AND ACCOMPLISHMENTS 4

METHODS AND CRITERIA FOR DISTRIBUTION OF FUNDS 6

 Program Administration..... 6

 SRF Priority List..... 6

 Fundable Projects..... 7

 Disbursements..... 7

 Federal Payments..... 7

 State Match..... 7

COMPLIANCE WITH OPERATING AGREEMENT REQUIREMENTS 7

 First Use Requirement..... 7

 Equivalency Requirements..... 8

 Environmental Reviews..... 8

 Applicable Federal Authorities and Laws..... 8

 Public Involvement..... 9

ATTACHMENT A: LIST OF PROJECTS WITH SIGNED LOAN AGREEMENTS

ATTACHMENT B: CASH DISBURSEMENTS AND FEDERAL CASH DRAWS - FY2001

ATTACHMENT C: BINDING COMMITMENTS

ATTACHMENT D: FINANCIAL STATEMENTS

ATTACHMENT E: LIST OF FUNDABLE PROJECTS

ATTACHMENT F: FY 2001 PROJECT PRIORITY LIST

STATE OF IDAHO
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE REVOLVING FUND
2001 ANNUAL REPORT

INTRODUCTION

This annual report is prepared for and submitted to the United States Environmental Protection Agency (EPA) in compliance with the requirements of Title VI of the Clean Water Act and 40 CFR Part 35. The reporting period is the state fiscal year (FY 2001) which began July 1, 2000 and ended June 30, 2001. This report describes how the Department of Environmental Quality (DEQ) has met the goals and objectives of its State Revolving Fund (SRF) as identified in the Intended Use Plans and Capitalization Grant Applications. In addition to addressing these documents, this report reflects the sources and uses of all SRF funds during FY 2001.

At the end of FY 2001 the SRF was capitalized with twelve federal capitalization grants and the corresponding state match. Figure 1 shows these funds by year as well as the allocation of the funds for administration and for loans.

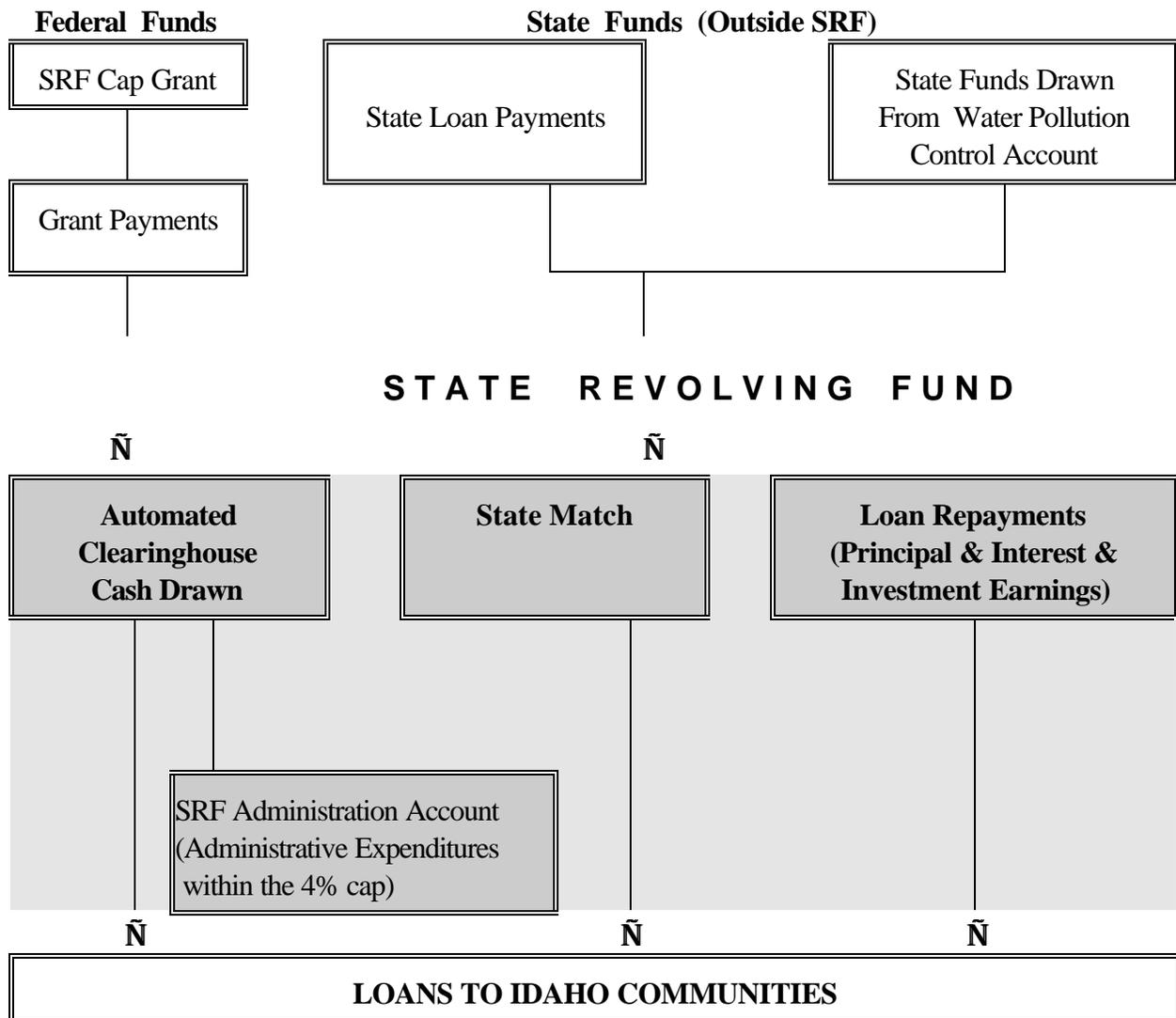
FIGURE 1: IDAHO SRF FUNDING THROUGH 6/30/2001

FFY	Capitalization Grant Amount	20% State Match	Administrative Allowance	Net Available for Wastewater Treatment Loans
1989	\$4,577,200	\$915,440	\$183,088	\$5,309,552
1990	4,738,000	947,600	189,520	5,496,080
1991	10,343,215	2,068,643	403,001	12,008,857
1992	9,534,900	1,906,980	381,396	11,060,484
1993	9,431,000	1,886,200	377,240	10,939,960
1994	5,813,800	1,162,760	232,552	6,744,008
1995	6,007,800	1,201,560	240,312	6,969,048
1996	6,318,400	1,263,680	252,736	7,329,344
1997	6,576,800	1,315,360	263,072	7,629,088
1998	6,577,300	1,315,460	263,092	7,629,668
1999	6,577,900	1,315,580	263,116	7,630,364
2000	6,555,200	1,311,040	262,208	7,604,032

TOTAL	83,051,515	16,610,303	3,311,333	96,350,485

Figure 2 below shows the flow of monies through the State Revolving Fund. Transfers are made from the Water Pollution Control Account as the 20% match is required when cash draws are made from the capitalization grants.

FIGURE 2: STATE REVOLVING FUND AND ACCOUNTS FLOW CHART



Other continuing activities during this fiscal year include the negotiation and signing of 5 new loan agreements in the total amount of \$12,741,680 and 1 loan increase for \$500,000. This brings the total number of signed loan agreements to 53 and an aggregate loan amount of \$119,727,543.

This fiscal year \$11,004,240 was disbursed to loan recipients. Four more loans finished the disbursement phase, bringing the total of completed loan projects to 36. All loans are scheduled to be repaid within twenty years of project completion.

This fiscal year the receipt of loan repayments continued to accelerate. DEQ staff receipted loan repayments of \$16,197,494 in principal and \$1,136,196 in interest. All scheduled repayments were received on time and in the scheduled amounts.

In addition to revenue from capitalization grants, the state match and repayments, the SRF is generating interest revenue on undisbursed monies. The fund received \$2,330,326 during the fiscal year.

LONG TERM GOALS AND PROGRESS

Three long-term goals were identified in the Intended Use Plans that were previously submitted to EPA. DEQ has made progress toward achievement of these long-term goals.

GOAL 1

Protect public health and the waters of the state by offering financial assistance for the construction of wastewater treatment facilities.

Progress

By June 30, 2001 DEQ had completed 13 annual rounds of establishing priority lists in order to make the funding available. However, because the needs of all communities is much larger than the available funds, DEQ has attempted to award funding for projects as much as possible in priority order. Loan applications are only solicited for amounts equal to the funds available. This prevents communities from having to incur the cost of preparing an application for which funds are not available.

DEQ staff meets on a quarterly basis with all other state and federal agencies that provide funding for wastewater treatment projects in order to coordinate efforts. Each of the agencies reviews the priority lists of each of the other agencies. Several projects for which SRF loans have been awarded also have Community Development Block Grants that are administered by the Idaho Department of Commerce.

GOAL 2

Assist local communities as they strive to achieve and maintain compliance with federal and state water quality standards.

Progress

Idaho's SRF Program continues to be water quality driven. All projects identified to receive financial assistance are ranked in accordance with the procedures in our rules. Of a possible 100 points in the rating system, 30 points are given if a project is needed to meet enforceable requirements of the Clean Water Act. 10 points are awarded if there is a threat to special resource waters and 5 points are awarded if there is a potential water quality impact on the beneficial use of surface or groundwater as identified in state water quality standards.

GOAL 3

Administer Idaho's SRF to ensure its financial integrity, viability, and revolving nature in perpetuity.

Progress

Loan applications have been and will be carefully scrutinized to assure affordability and thereby loan repayment. In most cases loans will be secured by Revenue Bonds which will be held as collateral for the loan. In the case of projects that are funded using the "ordinary and necessary" provisions allowed by the Idaho Constitution, covenants are required which give the SRF rights to recover in case of nonpayment. "Ordinary and necessary" loans also are collateralized by promissory notes. All loan ordinances establish reserve accounts to be drawn upon to make a loan repayment in case of a shortfall in the collection of user charges.

The loan rate for the first two years of the program was set at 4% as an enticement to communities to use the SRF. For the next seven years the rate was 4.5% and is reevaluated on an annual basis. The rate was reduced to 4.0% in FY 1999 and continued at 4.0% through FY2001.

Because the number of projects that are able and willing to proceed with construction has not exceeded the amount of

available funding, DEQ has decided not to pursue leveraging schemes that could increase the available amount of funds. Leveraging in Idaho would be very difficult since the Department does not have bonding authority and even the State Treasurer is limited by the State Constitution to \$2 million in long-term debt.

SHORT TERM GOALS AND PROGRESS

In its Intended Use Plan DEQ identified three short-term goals to be implemented in FY 2001. These have been achieved as follows:

GOAL 1

Perform all necessary tasks to assure that all loan assistance requested for Federal Fiscal Year 2000 funding is provided to projects on the list in a timely manner.

Progress

DEQ staff has worked diligently to obtain loan applications from any and all projects that were willing and able to proceed. Many preapplication meetings were held. The signing of the 5 new loans previously mentioned has put the SRF well ahead of the schedule negotiated with EPA for securing signed loan agreements.

GOAL 2

Explore opportunities to expand the uses of SRF funds to include funding of non-point source projects.

Progress

Changes were made to Idaho Code and DEQ rules to allow SRF funding for non-point source projects. An integrated priority rating form was developed pursuant to the rules that would produce a priority list of projects that could include both point and non-point source projects. DEQ engineering staff were trained on the use of the form and the form was used to prepare the priority list for FY2002. Because the legislature had not adopted the new rules allowing funding for non-point source

projects at the time the priority rating was being conducted, the FY2002 list contains only point source projects. It is expected that the FY2003 list will contain both point and non-point source projects.

GOAL 3

Address long-term funding for SRF administrative costs when capitalization grants are no longer provided.

Progress

No action was taken because the Legislature changed funding sources for many DEQ positions. It is now possible that DEQ staff working in the SRF program could be funded with State General Fund dollars. This goal will be analyzed again in FY 2002. If it is determined that General Fund backing is adequate for future needs this goal could be eliminated for FY2003.

METHODS AND CRITERIA FOR DISTRIBUTION OF FUNDS

The following principles and procedures were the basis for the administration, funding, allocation and distribution of the SRF monies in FY 2001.

PROGRAM ADMINISTRATION

Four percent of each capitalization grant provided by EPA was set aside to be used for program administration.

SRF PRIORITY LIST

Priority list rating forms were sent to Project Engineers in DEQ regional offices to rate all cities, counties and water and sewer districts in the state. Once all of the forms were completed a meeting was held of the Senior Engineers to rate and rank the projects. The result of the rating and ranking was the preliminary priority list that was presented at the public hearing.

Projects on the FY2001 list were rated using the following criteria:

1. 40 points - Public health emergency certified by the Board

2. 30 points - Project needed to meet enforceable requirements of the Clean Water Act
3. 10 points - Public health hazard documented by District Health Boards or DEQ
4. 10 points - Threat to special resource waters as documented by DEQ rules Title 1
5. 5 points - Potential public health hazard not documented by District Health or DEQ
6. 5 points - Potential water quality impacts other than public health which may affect beneficial use of surface or groundwater

FUNDABLE PROJECTS

The highest rated projects on the adopted Priority List that are ready to proceed are selected for funding and listed on the IUP.

DISBURSEMENTS

The estimated timing and amount of disbursements for the projects on the new IUP are added to the latest cash disbursement request projections for prior year funded and projected projects. The projections are normally provided to EPA in July each year. The projections are based upon estimated disbursement schedules submitted by loan recipients and projected timing of loan agreements, adjusted for corrections by regional project engineers and central office staff. These disbursements are tracked on an on-going basis to project needed cash from all capitalization grants and state match. All funds were expended in an expeditious and timely manner.

FEDERAL PAYMENTS

Idaho's proposed payment schedule for each capitalization grant is based upon the projected timing of signed loan agreements with projects listed on the current and prior IUP's. This allows for adjustment of prior IUP projects to be reflected in the federal payment schedule.

STATE MATCH

Idaho's match for all capitalization grants is provided from state letters of credit that are drawn on the state Water Pollution Control Account.

COMPLIANCE WITH OPERATING AGREEMENT REQUIREMENTS

The following sections address compliance with the requirements of the Operating Agreement between the EPA and DEQ for the SRF Program.

FIRST USE REQUIREMENT

This requirement for the use of SRF funds has been met. All Idaho communities on the National Municipal Policy list have achieved compliance with water quality requirements, are on an enforceable schedule, have an enforcement action filed, or have a funding commitment.

EQUIVALENCY REQUIREMENTS

Idaho plans to use both its federal capitalization grant and state match on "equivalency projects". As such, it is DEQ's intent that all projects meet each of the 16 specific statutory requirements provided in Section 602(b)(6) of the Clean Water Act. In the event that EPA disagrees with DEQ's determination that a particular project qualifies as an "equivalency project," DEQ will accept the judgement of EPA and substitute one or more additional "equivalency projects" of similar or greater size to ensure that Idaho is released from Title II requirements as soon as possible.

Each SRF loan agreement includes language agreeing to comply with the 16 Title II requirements of the SRF program as well as federal "cross-cutting" requirements. Compliance with the appropriate Title II and "cross-cutting" requirements is a checklist item monitored by regional project engineers.

ENVIRONMENTAL REVIEWS

DEQ reviews all requests for categorical exclusion, environmental assessments and environmental impact statements for SRF projects pursuant to procedures established in the SRF Handbook of Procedures. These documents are prepared by project applicants. After review and incorporation of any DEQ staff

comments, public comments are solicited through notices published in a local newspaper of general circulation. Comments are sought from other affected state and federal agencies.

During FY 2001 public notices were developed and environmental documents were reviewed for Payette, Kimberly, Boise, South Fork of the Coeur d'Alene River Sewer District and Pocatello. It was determined that a previous Finding of No Significant Impact was adequate for Pocatello while Payette, Kimberly, Boise and the South Fork of the Coeur d'Alene River Sewer District each qualified for a Categorical Exclusion.

APPLICABLE FEDERAL AUTHORITIES AND LAWS

DEQ, and recipients of SRF monies directly made available by the capitalization grants, will comply with federal laws and authorities, as identified in the Initial Guidance of January 1988. DEQ agrees to notify EPA when consultation or coordination is necessary to resolve issues regarding compliance with "cross-cutting" authorities. As is the case with Title II requirements, specific language agreeing to comply is included in each loan agreement, and compliance is a checklist review item for each regional project engineer.

PUBLIC INVOLVEMENT

Public involvement was provided during the development of the fiscal 2002 Priority List. Notification of the hearing was published in 6 regional Idaho newspapers once a week for 3 consecutive weeks. The public was invited to submit comments concerning the list by May 18, 2001. Notifications were also mailed to all Idaho cities, counties, water and sewer districts, and many engineering consultants of the opportunity to submit projects for consideration. A public hearing to receive oral comments regarding the list was held on May 11, 2000 at the DEQ building in Boise. The DEQ Board approved the final FY 2002 list on June 14, 2000.

September 28, 2001

Mr. Charles Findley
Acting Regional Administrator
Environmental Protection Agency
Region X M/S SO-141
1200 Sixth Avenue
Seattle, Washington 98101

Re: Idaho Clean Water State Revolving Fund

Dear Mr. Findley:

As required by Title VI of the Clean Water Act, the State of Idaho hereby submits the FY 2001 Annual Report for the State Revolving Fund (SRF). The fiscal year for reporting purposes is the state fiscal year, July 1 to June 30, as is specified in the Operating Agreement that was signed by your agency and our department.

If you or your staff have any questions regarding this report, please contact Bill Jerrel at (208) 373-0400.

Sincerely,

C. Stephen Allred
Director

cc: David Mabe, DEQ-WQ Programs
Dave Sande, DEQ-Fiscal
Bill Hart, DEQ-Fiscal
Michelle Tucker, EPA-Reg X

**STATE OF IDAHO
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND
BALANCE SHEET
FOR THE YEARS ENDED JUNE 30, 2000 AND 2001**

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
CURRENT ASSETS		
Cash	\$ 57,129,409	\$37,465,393
Interest Receivable - Fund Balance	202,448	66,670
Interest Receivable - Loans	754,218	951,788
Loans Receivable	<u>1,416,399</u>	<u>1,282,494</u>
TOTAL CURRENT ASSETS	<u>59,502,474</u>	<u>39,766,345</u>
LONG TERM ASSETS		
Interest Receivable - Loans	0	82,349
Loans Receivable	<u>46,176,542</u>	<u>51,503,701</u>
TOTAL LONG TERM ASSETS	<u>46,176,542</u>	<u>51,586,050</u>
TOTAL ASSETS	<u>\$105,679,016</u>	<u>\$91,352,395</u>
<u>LIABILITIES AND FUND EQUITY</u>		
CURRENT LIABILITIES		
Due To DEQ Fund	\$ 34,328	\$ 28,666
Other Current Liabilities	<u>19,076</u>	<u>17,087</u>
TOTAL CURRENT LIABILITIES	<u>53,404</u>	<u>45,753</u>
FUND EQUITY		
Contributions From EPA	77,728,220	68,286,095
Contributions From State	15,545,644	13,657,219
Retained Earnings	<u>12,351,748</u>	<u>9,363,328</u>
TOTAL FUND EQUITY	<u>105,625,612</u>	<u>91,306,642</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$105,679,016</u>	<u>\$91,352,395</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF IDAHO
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 2000 AND 2001**

<u>REVENUES</u>	<u>2001</u>	<u>2000</u>
Interest Earned - Loans	\$ 856,277	\$1,551,415
Interest Earned - Fund Balance	<u>2,466,104</u>	<u>1,708,738</u>
TOTAL REVENUE	<u>3,322,381</u>	<u>3,260,153</u>
<u>EXPENSES</u>		
Program Administration:		
Personnel	218,491	245,114
Indirect Expense	85,042	96,070
Travel	4,106	5,061
Operating Expense	<u>26,322</u>	<u>26,432</u>
TOTAL EXPENSES	<u>333,961</u>	<u>372,677</u>
Excess of Revenues Over Expenses	2,988,420	2,887,476
Retained Earnings at Beginning of Year	<u>9,363,328</u>	<u>6,475,852</u>
Retained Earnings at End of Year	<u>\$12,351,748</u>	<u>\$9,363,328</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF IDAHO
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2000 AND 2001**

	<u>2001</u>	<u>2000</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Loan Cash Flows:		
Cash Received - Loan Interest Repayments	\$ 1,136,196	\$ 882,587
Cash Received - Loan Principal Repayments	16,197,498	1,493,788
Loan Disbursements To Communities	<u>(11,004,240)</u>	<u>(13,606,349)</u>
Subtotal Loan Cash Flows	<u>6,329,454</u>	<u>(11,229,974)</u>
Other Operating Cash Flows:		
Cash Payments - Administrative Expenses	(331,973)	(372,918)
Cash Provided (Used) - Increase (Decrease) in Amount Due To DEQ Fund	<u>5,659</u>	<u>(70,102)</u>
Subtotal Other Cash Flows	<u>(326,314)</u>	<u>(443,020)</u>
NET CASH FROM (FOR) OPERATING ACTIVITIES	<u>6,003,140</u>	<u>(11,672,994)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Cash Received From EPA	9,442,125	11,707,809
Cash Received From State Match	<u>1,888,425</u>	<u>2,341,561</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>11,330,550</u>	<u>14,049,370</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Cash Received - Interest on Fund Balance	<u>2,330,326</u>	<u>1,784,347</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,330,326</u>	<u>1,784,347</u>
NET INCREASE (DECREASE) IN CASH	19,664,016	4,160,723
CASH BALANCE, BEGINNING OF YEAR	<u>37,465,393</u>	<u>33,304,670</u>
CASH BALANCE, END OF YEAR	<u>\$57,129,409</u>	<u>\$37,465,393</u>
RECONCILIATION OF INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2001		
Net Revenue		\$ 2,988,420
Adjustments to reconcile income to net cash provided by operating activities:		
Interest Earned - Fund Balance	\$(2,466,104)	
Change in assets and liabilities:		
Decrease in Interest Receivable Loans	279,919	
Decrease in Loans Receivable	5,193,254	
Increase in Other Payables	1,989	
Increase in Due to DEQ Fund	<u>5,662</u>	
Total Adjustments		<u>3,014,720</u>
Net Cash Provided (Used) by Operating Activities		<u>\$ 6,003,140</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF IDAHO
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

Note 1 - Organization of the Fund

The Idaho Clean Water State Revolving Fund (the Fund) was established pursuant to Title VI of the Federal Water Quality Act of 1987 (the Act). The Act established the Clean Water State Revolving Fund (CWSRF) program to replace the construction grants program to provide loans at reduced interest rates to finance the construction of publicly owned water pollution control facilities. Instead of making grants to communities that pay for a portion of building wastewater treatment facilities, the CWSRF provides a flexible financing source that can be used for a variety of pollution control projects.

Loans made by the Fund must be repaid within 20 years, and all repayments, including interest and principal, must be returned to the Fund. The monies of the Fund are to be used for eligible purposes in perpetuity.

The Fund is in the process of being capitalized by the U.S. Environmental Protection Agency (EPA) through a series of grants beginning in 1989. States are required to provide an additional 20 percent of the Federal capitalization grant as matching funds in order to receive a grant. As of June 30, 2001, Congress authorized the EPA to award \$89,500,000 in capitalization grants to Idaho. The State is required to contribute \$17,900,000 in matching funds.

The Fund is administered by the Idaho Department of Environmental Quality (DEQ). The Fund does not have any full time employees. Instead, DEQ charges the Fund for time spent on CWSRF activities by DEQ employees, and the Fund reimburses the DEQ Fund for such costs. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Fund based on direct salary costs. Employees charging time to the Fund are covered by the benefits of the State. The Fund is also charged indirect costs of the State through the cost allocation plan for general state expenses.

The Fund is included in the State's general-purpose financial statements as an Enterprise Fund using the accrual basis.

**STATE OF IDAHO
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The Fund presents its financial statements as an Enterprise fund. The State's central accounting system records transactions on a cash basis of accounting. For the CWSRF, the financial records have been converted as necessary to the accrual basis. The accrual basis of accounting requires the recording of revenues when earned and expenses are recorded when liabilities are incurred.

Cash and Cash Equivalents

All cash of the Fund is deposited with the Office of the State Treasurer. Under Idaho Code, the State Treasurer is responsible for the investment of the cash balances of the State. Therefore, management of the Fund does not have any control over the investment of excess cash, and these financial statements consider all funds deposited with the Treasurer to be cash or cash equivalents, regardless of the actual maturities of the underlying investments. The Fund receives interest earnings monthly from the Treasurer. This is the source of revenue titled "Interest Earned - Fund Balance".

By Idaho Code, all cash of the Fund is perpetually appropriated for program purposes.

Encumbrances

Encumbrances are not reported as expenses. There were no encumbrances outstanding at the years ended, June 30, 2000, and June 30, 2001.

Fixed Assets

Governmental fixed assets include such items as land, land improvements, buildings, fixtures, equipment, and property under construction, and are recorded at cost. For the CWSRF, some items of equipment, such as computers, are the only "fixed assets" to be considered in these financial statements. The CWSRF owns no land, land improvements, buildings, fixtures, or property under construction and has no plans to acquire.

In accordance with Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, only equipment having a useful life of more than one year and acquisition cost of \$5,000 or greater is considered for capitalization and depreciation using the straight line method over the estimated useful life. At this time, the CWSRF does not own any equipment meeting these criteria and there are not any changes to fixed assets to report.

Loans Receivable and Interest Capitalization

Loan funds are disbursed to the local agencies as they incur costs for the purposes of the loan and request loan disbursements from the Fund. Typically, interest is calculated from the date that funds are advanced. After final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period. At the loan closing, the loan recipient is given the opportunity to payoff any accrued interest during the construction phase or to capitalize the interest into the loan principal, subject to the available debt capacity of the loan recipient as stated in the loan award.

Management considers all loans to be fully collectible, therefore, no allowance for uncollectible accounts is made.

STATE OF IDAHO
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

Note 2 - Summary of Significant Accounting Policies (Continued)

Indirect Costs - Specific Fund Liabilities

Generally accepted accounting principles require note disclosures for certain liabilities such as: **Compensated absences, Pension plan obligations, and Commitments under noncapitalized (operating) leases.** These types of costs are obligations of the entire Department of Environmental Quality and the CWSRF receives an allocation of these costs, either through direct expense as incurred or through the application of a negotiated indirect rate. As stated in Note 1 - Organization of the Fund, the CWSRF does not have any full time employees. Instead, DEQ charges the CWSRF program for the specific labor cost spent directly on CWSRF activities by DEQ employees.

For the year ended June 30, 2001, the CWSRF does not have separate specific liabilities for Compensated absences, Pension plan obligations, and Commitments under noncapitalized (operating) leases.

Note Disclosures

The guidelines set forth by EPA do not require some of the disclosures required by GAAP; however, all note disclosures required by GAAP are included in the State's *Comprehensive Annual Financial Report* (CAFR). The Fund is included as part of the CAFR, which can be obtained from the State Controller's Office; 700 West State Street; Boise, Idaho 83720.

Contributed Capital

In accordance with generally accepted accounting principles, only funds actually received from the EPA and the State for the capitalization of the Fund are recorded as contributed capital.

State Match

Under Idaho Code, the State match is perpetually appropriated from the Water Pollution Control Account. The State is only required to deposit cash match into the CWSRF when an actual cash draw from the EPA is made.

Note 3 - Cash and Cash Equivalents

All cash of the Fund is deposited with the Office of the State Treasurer. The State Treasurer is responsible for the investment of the cash balances of the State in accordance with State laws, and excess cash is invested in a pooled money investment fund. Details of the investments for the pooled fund can be obtained from the State Treasurer. Idaho Code does not require collateralization of deposits. The State Treasurer carries cash and cash equivalents at cost.

All cash of the Clean Water State Revolving Fund (CWSRF) is stated at cost. Cash invested in the Treasurer's pooled money investment account is not categorized because it is not evidenced by securities that exist in physical or book entry form. The carrying amount of invested cash of the CWSRF at June 30, 2001, is \$57,129,409, which approximates market.

**STATE OF IDAHO
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

Note 4 - Loans Receivable

Financial Accounting Standards Board Statement No. 105, *Disclosure of Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk*, requires disclosure of the following:

Extent, Nature, and Terms of Financial Instruments

The Fund makes loans to qualified agencies for projects that meet the eligibility requirements of the Act. Loans are financed by capitalization grants, State match, and revolving funds. Effective interest rates on loans vary between 4% and 4.5% and are generally repaid over 20 years starting within one year after the project is completed.

Collateral

At the loan closing, the State of Idaho receives collateral, typically a sewer revenue bond, local improvement district bond or promissory note, from the borrower. As of June 30, 2001, the Office of the State Treasurer held \$22,048,180 (at original face value) of Bonds and \$8,896,988 (at original face value) of Promissory Notes as collateral for the Clean Water State Revolving Fund.

Loans by Category

Loans receivable at June 30, 2001, are as follows:

	<u>Loan Authorized</u>	<u>Principal Repayments</u>	<u>Remaining Commitment</u>	<u>Receivable Balance</u>
Completed Projects	\$ 68,248,876	\$44,523,180	\$ 0	\$23,725,696
Projects in Progress	<u>49,038,848</u>	<u>0</u>	<u>25,171,603</u>	<u>23,867,245</u>
Totals	<u>\$117,287,724</u>	<u>\$44,523,180</u>	<u>\$25,171,603</u>	47,592,941
Less: Amount Due Within 1 Year (Current)				<u>1,416,399</u>
Loans Receivable, Net of Current Maturities				<u>\$46,176,542</u>

The projected principal repayments in subsequent years are as follows:

Year Ending June 30:	<u>Amount</u>
2002	\$ 1,416,399
2003	1,977,616
2004	2,347,370
2005	2,444,459
2006	2,518,319
Thereafter	<u>36,888,778</u>
Total Loan Receivable	<u>\$47,592,941</u>

**STATE OF IDAHO
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

Note 4 - Loans Receivable (Continued)

Major Loans to Local Agencies

As of June 30, 2001, the Fund had made loans to the agencies listed below that, in aggregate, exceeded \$4 million. The outstanding balance of these loans represents approximately 65% of the total loans receivable, as follows:

<u>Local Agency</u>	<u>Authorized Loan Amount</u>	<u>Outstanding Balance</u>
City of Boise	\$23,995,479	\$ 433,700
City of Caldwell	10,000,000	0
City of Moscow	10,000,000	1,278,602
City of Pocatello	8,622,654	6,099,125
City of Twin Falls	8,500,000	6,428,426
City of Coeur d Alene		7,963,961
5,874,789		
North Lake Sewer and Water District	7,673,000	7,138,100
South Fork Coeur d Alene River Sewer District	5,600,000	302,248
City of Rexburg	5,000,000	3,346,965
City of Hailey	<u>4,500,000</u>	<u>0</u>
Totals	<u>\$91,855,094</u>	<u>\$30,901,955</u>

The authorized loan amount includes both completed projects and projects in progress. As of June 30, 2001, principal repayments on completed projects by the above agencies was \$41,073,435 and remaining amounts to be disbursed on projects in progress was \$19,879,704.

Note 5 - Interest Receivable

The interest rate on loans varies between 4% and 4.5% and are generally repaid over 20 years starting within one year after the project is completed. Details of loan interest receivable as of June 30, 2001, are as follows:

Interest Receivable by Category

Completed Projects	\$ 337,866
Projects in Progress	<u>416,352</u>
Total Interest Receivable	<u>\$ 754,218</u>

Note 6 - Interfund Payable

On June 30, 2001, the DEQ Fund (#0225) was owed \$34,328 by the Clean Water State Revolving Fund program. The DEQ Fund is the fund from which the CWSRF program pays for administrative costs.

**STATE OF IDAHO
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

Note 7 - Contingencies and Other Subsequent Events

Contingencies

The Fund is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to State employees while performing Fund business, or acts of God. The Fund maintains insurance (through the Idaho State Department of Administration, Bureau of Risk Management) for all risks of loss. The cost of insurance is included in the indirect costs charged to the Fund. There have not been any claims against the Fund since its inception in 1989.

Subsequent Events

Subsequent to June 30, 2001, the following events occurred:

On August 29, 2001, the EPA awarded the 2001 CWSRF capitalization grant to the State. The grant provides \$6,496,100 (of which \$6,236,256 will be available for loans and \$259,844 for CWSRF administration) of additional Contributed Capital from EPA and \$1,299,220 of additional Contributed Capital from the State.

On August 28, 2001, the City of Pocatello entered into a new loan agreement (Loan #1898-09) for \$5,850,000.

Note 8 - Contributed Capital and Fund Balance

The Fund is capitalized by EPA grants authorized by Title VI of the Act and matching funds from the State. All funds drawn are recorded as contributed capital from the EPA and the State. As of June 30, 2001, EPA has awarded capitalization grants of \$83,051,515 to the State, of which \$,286,095 has been drawn for loans and administration of the Fund. The State has provided the required matching funds of \$13,657,219. The following schedule summarizes the capitalization grants awarded by Federal fiscal year, amounts drawn on each grant as of the balance sheet date, and balances available for future loan disbursements:

<u>Year</u>	<u>EPA Grant Amount</u>	<u>Total Draws at June 30, 2000</u>	<u>Draws during SFY 2001</u>	<u>Total Draws at June 30, 2001</u>	<u>Balance at June 30, 2001</u>
1989	\$ 4,577,200	\$ 4,577,200	\$ 0	\$ 4,577,200	\$ 0
1990	4,738,000	4,738,000	0	4,738,000	0
1991	10,343,215	10,343,215	0	10,343,215	0
1992	9,534,900	9,534,900	0	9,534,900	0
1993	9,431,000	9,431,000	0	9,431,000	0
1994	5,813,800	5,813,800	0	5,813,800	0
1995	6,007,800	6,007,800	0	6,007,800	0
1996	6,318,400	6,318,400	0	6,318,400	0
1997	6,576,800	6,576,800	0	6,576,800	0
1998	6,577,300	4,944,980	1,632,320	6,577,300	0
1999	6,577,900	0	6,577,900	6,577,900	0
2000	6,555,200	0	1,231,905	1,231,905	5,323,295
Totals	<u>\$83,051,515</u>	<u>\$68,286,095</u>	<u>\$ 9,442,125</u>	<u>\$77,728,220</u>	<u>\$5,323,295</u>

As of June 30, 2000 and 2001, the State match contributions were:

	<u>Total Appropriated State Match</u>	<u>Total Match Provided at June 30, 2000</u>	<u>State Match Provided in SFY 2001</u>	<u>Total Match Provided at June 30, 2001</u>	<u>Available State Match Balance at June 30, 2001</u>
Idaho	<u>\$16,610,303</u>	<u>\$13,657,219</u>	<u>\$1,888,425</u>	<u>\$15,545,644</u>	<u>\$1,064,659</u>

STATE OF IDAHO
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND
JUNE 30, 2001

SUPPLEMENTARY INFORMATION

Program Basis Supplementary Balance Sheet

A program basis balance sheet is presented as supplementary information at management's request. The program basis balance sheet is not intended to be a presentation in conformity with generally accepted accounting principles (GAAP). The purpose of the program basis balance sheet is to allow the reader of the financial statements an alternate picture on June 30, 2001, of the total available resources and total obligations of the CWSRF.

The program basis balance sheet includes assets, liabilities, and contributed capital not shown on the GAAP balance sheet. Specifically, the program basis balance sheet includes: in assets, the amount of available Federal grant and State match not actually received in cash; in liabilities, the amount of undisbursed loan commitments; and in fund equity, the total amount of awarded Federal grant and State match.

Note 4 to the financial statements mentions that the CWSRF has \$25,171,603 of "Remaining Commitment" for Projects in Progress in the Loans by Category section, but this amount fails to meet all the criteria for classification as a liability in accordance with GAAP. Statement of Financial Accounting Concepts No. 6, states, "Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer or provide services to other entities in the future as a result of past transactions or event." Specifically, the loan recipient must have incurred an eligible cost (prior to June 30, 2001) and then have requested a loan disbursement within a reasonable time of the Balance Sheet date to be counted as a liability according to GAAP.

Also, Note 8 shows that the CWSRF had available \$5,323,295 of EPA Grant Balance and \$1,064,659 of State Match. Together, they represent the very resources that management intends to use to meet the next \$6,387,954 of loan disbursements. Again, strict application of GAAP prevents the inclusion of available Federal grant and State match as assets until the conditions of paragraph three are met.

The primary users of the financial statements, management and the EPA, often ask the following: *"How much money is available for additional loans?"* Management believes the following comparison of total resources against total obligations is the best starting point for that analysis.

SUPPLEMENTARY PROGRAM BASIS BALANCE SHEET

**STATE OF IDAHO
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND
BALANCE SHEET - PROGRAM BASIS
FOR THE YEARS ENDED JUNE 30, 2000 AND 2001**

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
CURRENT ASSETS		
Cash	\$ 57,129,409	\$ 37,465,393
Interest Receivable - Fund Balance	202,448	66,670
Interest Receivable - Loans	754,218	951,788
Loans Receivable	1,416,399	1,282,494
Undisbursed Federal Grant	5,323,296	8,210,220
Undisbursed State Match	<u>1,064,660</u>	<u>1,642,044</u>
TOTAL CURRENT ASSETS	<u>65,890,430</u>	<u>49,618,609</u>
LONG TERM ASSETS		
Interest Receivable - Loans	0	82,349
Loans Receivable	<u>46,176,542</u>	<u>51,503,701</u>
TOTAL LONG TERM ASSETS	<u>46,176,542</u>	<u>51,586,050</u>
TOTAL ASSETS	<u>\$112,066,972</u>	<u>\$101,204,659</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
CURRENT LIABILITIES		
Due To DEQ Fund	\$ 34,328	\$ 28,666
Other Current Liabilities	19,076	17,087
Loans Payable	<u>15,896,115</u>	<u>17,076,388</u>
TOTAL CURRENT LIABILITIES	<u>15,949,519</u>	<u>17,122,141</u>
LONG TERM LIABILITIES		
Loans Payable	<u>9,275,488</u>	<u>5,942,775</u>
TOTAL LONG TERM LIABILITIES	<u>9,275,488</u>	<u>5,942,775</u>
FUND EQUITY		
Contributions From EPA	83,051,515	76,496,315
Contributions From State	16,610,303	15,299,263
Reserve For Undisbursed Commitments	(25,171,603)	(23,019,163)
Retained Earnings	<u>12,351,750</u>	<u>9,363,328</u>
TOTAL FUND EQUITY	<u>86,841,965</u>	<u>78,139,743</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$112,066,972</u>	<u>\$101,204,659</u>

SUPPLEMENTARY PROGRAM BASIS BALANCE SHEET

**STATE OF IDAHO
DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND
BALANCE SHEET - PROGRAM BASIS
FOR THE YEARS ENDED JUNE 30, 2000 AND 2001**

	<u>2001</u>	<u>2000</u>
Reconciliation to GAAP Balance Sheet:		
Total Assets - Program Basis	\$112,066,972	\$101,204,659
Less Undisbursed Federal Grant	(5,323,296)	(8,210,220)
Less Undisbursed State Match	<u>(1,064,660)</u>	<u>(1,642,044)</u>
Total Assets - GAAP Basis	<u>\$105,679,016</u>	<u>\$ 91,352,395</u>
Total Liabilities - Program Basis	\$ 25,225,007	\$ 23,064,916
Less Loans Payable	<u>(25,171,603)</u>	<u>(23,019,163)</u>
Total Liabilities - GAAP Basis	<u>53,404</u>	<u>45,753</u>
Total Fund Equity - Program Basis	86,841,965	78,139,743
Plus Reserve For Undisbursed Commitments	25,171,603	23,019,163
Less Undrawn Federal Grant	(5,323,296)	(8,210,220)
Less Undrawn State Match	<u>(1,064,660)</u>	<u>(1,642,044)</u>
Total Fund Equity - GAAP Basis	<u>105,625,612</u>	<u>91,306,642</u>
Total Liabilities and Fund Equity - GAAP Basis	<u>\$105,679,016</u>	<u>\$ 91,352,395</u>