

# STATE OF UTAH

# STATE REVOLVING FUND

## 2022 ANNUAL REPORT

PREPARED BY

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UTAH DEPARTMENT *of*  
ENVIRONMENTAL QUALITY

**WATER  
QUALITY**

# Executive Summary

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The Utah Water Quality Board (the Board) administers financial assistance programs through the Division of Water Quality including the Clean Water State Revolving Fund, the Utah Wastewater Loan Fund, and the Hardship Grant Funds. The Board is comprised of nine members who are appointed by the Governor. The Board's primary responsibilities in administering financial assistance funds include developing administrative rules for program implementation, authorizing loans, hardship grant and principal forgiveness amounts, and determining interest rates and loan terms.

The Division of Water Quality (DWQ) serves as staff for the Board and manages the day-to-day operations of the financial assistance programs. Those responsibilities include administering loans, providing construction assistance, and managing fund transactions. DWQ coordinates their efforts with the Department of Environmental Quality - Office of Support Services, the Utah Division of Finance, the Utah Attorney General's Office, and the State Treasurer's Office to meet all federal and state requirements. DEQ's Mission, Vision, and Values are our guiding principles.

Both direct and indirect costs are incurred by DWQ for the administration of the financial assistance programs. Those costs are funded with revenues from Clean Water State Revolving Fund (SRF) administrative dollars and loan origination fees. DWQ employees charge time for eligible administrative work on the SRF program. Those employees are covered by the State of Utah personnel benefits plan. Indirect costs for general state expenses are also charged through a cost allocation plan.

## Program History

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Utah's Clean Water SRF was established pursuant to Title VI of the Federal Clean Water Act of 1987. The SRF provides low interest rate loans for the funding of water quality and wastewater infrastructure projects in Utah. The State of Utah - Department of Environmental Quality receives Capitalization Grants from the Environmental Protection Agency (EPA) and provides 20% in state matching funds for awarded grants. The SRF receives revenue from principal loan repayments, interest payments, and interest earned on the investment fund. Expenses for projects under construction are then disbursed from the SRF.

DWQ also operates a state loan program, which provides an alternative source of funding for certain water quality projects. The state loan program provides additional flexibility for

project development without some of the funding conditions or restrictions that accompany the SRF funds. State matching funds for the SRF are generated from this state loan program.

With approval from the EPA, the State of Utah established a Federal Hardship Grant Program in 1993. This grant program is funded through hardship assessment fees charged in lieu of interest on SRF loans. The hardship grant assessment fees are deposited into a Federal Hardship Grant Fund, which is separate from the SRF. These monies are used to provide grants to communities with a demonstrated economic hardship and that are otherwise unable to implement clean water projects through the loan programs.

## Program Goals

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Projects in the state that protect and enhance water quality are considered for financial assistance. Eligible projects include construction of publicly owned treatment works (POTWs), nonpoint source projects, stormwater projects, energy and water efficiency initiatives, construction of publicly or privately-owned decentralized systems, and technical assistance in support of these projects.

### Long-Term Program Goals

1. Provide a permanent funding source for water quality construction projects that supplement a community's own resources and/or other funding sources.
  - All projects receiving loans through the SRF are required to make an annual repayment of principal beginning one year after project construction is complete. Cash flow projections indicate that the fund will continue to generate a revenue stream for future projects.
2. Distribute SRF funds to projects with the highest water quality and infrastructure needs by evaluating and prioritizing proposed projects throughout the state.
  - All construction projects presented to the Water Quality Board for funding receive a ranking on the Project Priority List. The Board balances project water quality impacts and financial need when determining authorization for funding.

3. Support EPA's Sustainability Policy by balancing a community's economic and water quality needs with the perpetuity of the SRF program.

- All projects receiving funding through the SRF are evaluated for their ability to solve critical public health and water quality needs while recognizing community economic conditions. Projects are funded in a manner that will be protective of the environment, affordable to the community, and consistent with EPA's Sustainability Policy.
- DWQ conducts financial feasibility reviews of all proposed projects that are based on engineering studies and facility plans conducted by SRF applicants prior to requesting Water Quality Board authorization of funding. The review includes an analysis of the value and priority of each project, the construction loan amount, and interest rate that should be applied. The result of these reviews ensures that all funded projects will use loan funds effectively and that the applicants can reasonably afford to repay their loans while properly maintaining the constructed system and meeting water quality objectives.
- The Hardship Grant Program was created specifically to provide supplemental funding for important water quality projects where the applicants are not able to secure sufficient loan funds due to financial hardship or other constraints.

4. Assist communities with all phases of a project, including sufficient planning, project design, environmental work, and construction.

- The Water Quality Board assists communities to address the need for adequate wastewater infrastructure. In so doing, the Board recognizes that wastewater facilities must meet community and water quality needs throughout the design life and that the facilities must be flexible to accommodate growth and changing requirements within that period. Therefore, the Board supports and requires strong community planning efforts to establish financial sustainability, coordinated growth, and cost-effective development and provision of wastewater services.

## Short-Term Program Goals

1. Present eligible projects to the Water Quality Board for authorization and assist communities through the application and award process.

- Engineering Section staff works closely with communities to ensure facility planning satisfies water quality needs and program requirements. Staff supports applicants

during application preparation to simplify the process, reduce paperwork, and minimize delays.

2. Collaborate with other agencies (e.g., Utah Permanent Community Impact Board, U.S. Department of Agriculture Rural Development, and U.S. Army Corps of Engineers) to sufficiently fund projects.

- Engineering Section staff assists each community from the beginning stages of application, planning, and design. Staff coordinates funding partnerships, particularly for large projects, with other public and private funding entities.

3. Solicit and fund eligible nonpoint source and storm water projects.

- The Engineering Section, Watershed Management Section, and StormWater Section staff work together with communities and landowners to identify and develop important water quality projects that are eligible for SRF funding.

4. Provide funding, equal to at least ten percent (10%) of the capitalization award, for energy efficiency and recycled water and water reuse projects to the extent such projects exist.

- Engineering Section and UPDES Permitting Section staff work with community's water and wastewater utilities to identify and develop water conservation, land treatment/disposal, and reuse opportunities that protect state waters and/or provide an alternative source for secondary water.

5. Increasing the profile of the SRF program as a potential funding source for low income and rural Utah communities.

- The SRF has partnered with the U.S. Department of Agriculture Rural Development to bring principal forgiveness grant funding to a small community of less than 10,000 in Northern Utah. In addition, Engineering Staff are currently coordinating with the Utah Permanent Community Impact Board to partner on the funding for a rural community in Central Utah.

## Program Accomplishments

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During FY22, the Water Quality Board authorized hardship grant funding for six (6) projects totaling \$705,868 loan funding assistance for five (5) projects totaling \$42,003,000, and closed loans for four (4) projects totaling \$41,700,000. Clean Water State Revolving

Fund and Utah Wastewater Loan Fund loans are not fully obligated until bonds are purchased by the Water Quality Board, i.e., the loan is closed. Funds for construction are not available to communities until loan closing occurs.

## Authorized Funding

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### Mt Pleasant

On August 25, 2021 the Utah Water Quality Board authorized a planning advance for \$50,000 to develop a master plan and capital facilities plan to determine recommended collection and treatment system improvement priorities.

<b>WQB Planning Advance</b>	\$50,000
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### Salina City

On October 27, 2021 the Utah Water Quality Board authorized a hardship grant for \$400,000 for design and other pre construction costs related to improvement wastewater collection and lagoon treatment facility plant.

<b>WQB Design Grant</b>	\$400,000
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### Hanksville Town

On December 15, 2021 the Utah Water Quality Board authorized a planning advance for \$36,600 to prepare a capital facility plan that evaluates current capacity of the lagoons, repair lagoon embankments, remove sediment deposits, and any additional improvements.

<b>WQB Planning Advance</b>	\$36,600
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## Provo City

On January 26, 2022 the Utah Water Quality Board authorized a loan in the amount of \$10,000,000 with a 0.5% interest rate and a 20-year repayment term and \$5,000,000 in principal forgiveness for constructing new aeration basins for the membrane bioreactors to enable the facility to biological remove phosphorus and nitrogen.

<b>WQB Loan Amount</b>	\$10,000,000
<b>Loan Interest Rate</b>	0.5%
<b>Loan Term</b>	20 years
<b>WQB Principal Forgiveness</b>	\$5,000,000

## South Salt Lake

On January 26, 2022 the Utah Water Quality Board authorized a loan in the amount of \$1,032,000 with a 0% interest rate and 20-year repayment term and \$1,760,000 in principal forgiveness for the additional funding needed to cover their portion of the BNR Project.

<b>WQB Loan Amount</b>	\$1,032,000
<b>Loan Interest Rate</b>	0%
<b>Loan Term</b>	20 years
<b>WQB Principal Forgiveness</b>	\$1,760,000

## Millville City

On January 26, 2022 the Utah Water Quality Board authorized refinance of Millville's \$5,011,000 USDA-RD loan comprised of a loan in the amount of \$1,261,000 with a 0% interest rate and 30-year repayment term and \$3,750,000 in principal forgiveness, as well as a hardship grant in the amount of \$151,768 to pay off an existing UWLF debt. The additional assistance is to reduce the estimated monthly rate to below \$100 per month per ERU. The proposed project consists of four principal parts: (1) constructing 15.6 miles of new sewerage system that will provide sewer service throughout the community; (2) connecting the new sewerage system to a regional wastewater treatment facility; (3) connecting private properties to the sewerage system; and (4) properly decommissioning the existing septic tanks.

<b>WQB Loan Amount</b>	\$1,261,000
<b>Loan Interest Rate</b>	0%
<b>Loan Term</b>	30 years
<b>WQB Principal Forgiveness</b>	\$3,750,000
<b>WQB Hardship Grant</b>	\$151,768



## Payson City

On January 26, 2022 the Utah Water Quality Board authorized an update to the previous funding package along with additional funding and terms. Payson City was previously authorized a loan in the amount of \$11,500,000 with a 1.11% interest rate and 20-year repayment term. The new authorization is for a loan in the amount of \$13,500,000 with a 0.5% interest rate and 30-year repayment term and \$1,000,000 in principal forgiveness for the modification of their water reclamation facility to bring it into compliance with TBPEL.

<b>WQB Loan Amount</b>	\$13,500,000
<b>Loan Interest Rate</b>	0.5%
<b>Loan Term</b>	30 years
<b>WQB Principal Forgiveness</b>	\$1,000,000

## Big Water Town

On March 23, 2022 the Utah Water Quality Board authorized a hardship planning grant in the amount of \$52,500 to develop a study for determining the feasibility of a sewer collection and treatment facility.

<b>WQB Planning Grant</b>	\$52,500
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## Millville City

On March 23, 2022 the Utah Water Quality Board authorized a loan in the amount of \$4,700,000 with a 0% interest rate and 30-year repayment term for additional funding needed for the design and construction of a new sewage collection system and to connect every home within municipal boundaries. This authorization is in addition to the \$500,000 loan authorized by Utah Water Quality Board on April 28, 2021.

<b>Previously Authorized WQB Loan Amount</b>	\$500,000
<b>Additional WQB Loan Amount</b>	\$4,700,000
<b>Total WQB Loan Amount</b>	\$5,200,000
<b>Loan Interest Rate</b>	0%
<b>Loan Term</b>	30 years

## Hinckley Town

On April 27, 2022 the Utah Water Quality Board authorized a hardship planning grant in the amount of \$15,000 to review the existing town sewer collection and treatment facilities. The review will help the town determine how to maintain a consistent depth in their lagoons, and help develop a plan on increasing connections to the sewer lagoons.

<b>WQB Planning Grant</b>	\$15,000
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# Project Loan Closings

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## Mountain Green

On April 28, 2022, the Utah Water Quality Board held a loan closing for Mountain Green Sewer Improvement District Project #265. The project consists of a significant upgrade of their existing lagoon treatment plant facility with BNR technology.

<b>WQB Loan Amount</b>	\$7,000,000
<b>Loan Interest Rate</b>	1.3%
<b>Loan Term</b>	30 years

## Payson City

On May 5, 2022, the Utah Water Quality Board held a loan closing for Payson City Project #266. The project consists of the modification of their water reclamation facility to bring it into compliance with TBPEL.

<b>WQB Loan Amount</b>	\$13,500,000
<b>Loan Interest Rate</b>	0.5%
<b>Loan Term</b>	30 years
<b>WQB Principal Forgiveness</b>	\$1,000,000

## Provo City

On May 5, 2022, the Utah Water Quality Board held a loan closing for Provo City Project #262b. The project consists of constructing new aeration basins for the membrane bioreactors to enable the facility to biological remove phosphorus and nitrogen.

<b>WQB Loan Amount</b>	\$10,000,000
<b>Loan Interest Rate</b>	0.5%
<b>Loan Term</b>	20 years
<b>WQB Principal Forgiveness</b>	\$5,000,000

## Millville City

On May 10, 2022, the Utah Water Quality Board held a loan closing for Millville City Project #267 and C067. The project consists of additional funding needed for the design and construction of a new sewage collection system and to connect every home within municipal boundaries.

<b>WQB Loan Amount</b>	\$5,200,000
<b>WQB Principal Forgiveness</b>	\$2,500,000
<b>Loan Interest Rate</b>	0%
<b>Loan Term</b>	30 years

# Operating Agreement Conditions

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The State of Utah has twenty-four conditions in the SRF Operating Agreement with the EPA that set forth program, management, and financial policies and procedures to be implemented. The first twelve conditions have been met and no status update is required. These include: Agreement to Accept Payments, State Laws and Procedures, State Accounting and Auditing Procedures, Recipient Accounting and Auditing Procedures, Use of the Automated Standard Application for Payments (ASAP), Repayments, Annual Audit, Annual Report, Annual Review, Anti-lobbying, Drug Free Workplace, Rural Area Business Enterprise Development Plan.

The remaining twelve conditions in the Operating Agreement have also been met but require an annual update. These are described below:

1. Provide State Match - State match funds are derived from sales tax dollars that are deposited into the Utah Wastewater Loan Fund. As prescribed in the Intended Use Plan, the Division of Water Quality uses the total amount of state match required toward eligible project costs before making draws from the EPA Capitalization Grant award.
2. Repayment Begins within One Year of Construction End – Principal and interest repayments of loans made through the SRF begin within one year of construction completion. This time allows revenue accumulation for one annual loan repayment.
3. Extended Term Financing – Utah ensures that the long-term revolving nature of the fund is protected. Based on Clean Water NIMS data, the three-year rolling average of annual loan commitments for 2020, 2021, and 2022 is \$62,007,667 which is greater than the established baseline of \$10,770,155.
4. Expeditious and Timely Expenditure - Utah has disbursed all cash draws in a timely and expeditious manner. Construction has begun on all SRF projects within a short period after loans are closed. For details on federal cash draw details, please see Table 2 on page 30.
5. First Use for Enforceable Requirements - Prior to receiving the Capitalization Grant, Utah had met the requirements of Section 1382(b) (5) of the Clean Water Act. This section requires that all Capitalization Grant funds be used in a manner that assures maintenance of progress toward compliance with enforceable deadlines, goals, and requirements of the Clean Water Act.

6. Eligible Activities of the Fund - All projects that have received SRF loans have expended loan proceeds for eligible costs.

7. Compliance with Title II Requirements - In accordance with Section 1382 (b) (6) of the Clean Water Act, the SRF is required to meet sixteen specific Title II “equivalency” requirements for wastewater treatment projects under Section 212 which have been constructed, in whole or part, before October 1, 1994, with funds “directly made available by the Capitalization Grant.” The State has met equivalency requirements up to October 1, 1994 and documented that compliance in previous annual reports. Since there was no requirement under this statute beyond the October 1, 1994 date, there has been no additional reporting for equivalency in this report.

8. DBE Requirements - The State negotiated fair share utilization goals with Region VIII for participation on activities financed by the SRF. During the state fiscal year, the SRF program has met or exceeded the minimum Disadvantaged Business Enterprise (DBE) utilization program requirements. Construction projects have either implemented fair share utilization goals for DBE participation or have demonstrated that a good faith effort was made to provide opportunity for qualified DBE involvement.

9. Other Federal Authorities - The State and all recipients of SRF funds, which were made available directly by the Capitalization Grant, have complied with applicable federal authorities. Recipients of SRF assistance agreed to this as a condition of the bond agreement between the loan recipient and the State.

10. State Environmental Review Process - During the fiscal year, the State was actively involved in assisting potential SRF projects with planning. Environmental impacts are being carefully considered with each plan. No loans are closed with a community until a Categorical Exclusion, Finding of No Significant Impact, or Environmental Impact Statement is issued.

11. Cash Draw Procedures - Table 2 of this report includes the amount of funds drawn from the EPA Capitalization Grants and from the state match for loan projects and administration during the fiscal year.

12. Outlay Projections - The FY21 Intended Use Plan (IUP) projected draws for loans from the EPA Capitalization Grants equal to \$22,092,801. During SFY 2022 a total of \$22,046,801 was actually drawn.

# Additional Subsidization

Clean Water SRF capitalization grant awards contain programmatic requirements for the State to provide additional subsidy to eligible recipients in the form of forgiveness of principal, negative interest loans, or grants. Utah’s program provides additional subsidy in the form of principal forgiveness. The table below updates progress in meeting the requirement. The program will continue to provide information regarding additional subsidization projects in subsequent Intended Use Plans and Annual Reports. (Utah’s 2022 award was received after June 30, 2022; therefore, reporting has not been included in the FY22 Annual Report.)

Additional Subsidization Requirements					
Award Year	Minimum Amount	Maximum Amount	Status	Project	Principal Forgiveness
2018	\$844,300	\$2,532,900	In Progress	Millville City	\$2,532,900
2019	\$844,300	\$2,532,900	In Progress	Millville City	\$1,071,100
				South Salt Lake City	\$1,461,800
2020	\$835,800	\$3,343,200	In Progress	Provo City	\$3,343,200
2021	\$835,700	\$3,342,800	In Progress	Provo City	\$3,342,800

# Green Project Reserve

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To the extent that there are sufficient eligible projects, not less than 10% of the funds made available through the Clean Water SRF capitalization grants (awarded from FFY19 – FFY21) shall be used for projects to address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. The table below updates progress in meeting the requirement. Potential projects that meet the requirement will be identified in future Intended Use Plans and reported once funds are expended during the construction phase.

<b>Green Project Reserve Requirements</b>			
<b>Award Year</b>	<b>Amount</b>	<b>Project</b>	<b>Credit</b>
<b>2019</b>	\$844,300	Provo City	Allocated
<b>2020</b>	\$844,300	Provo City	Allocated
<b>2021</b>	\$835,800	Provo City	Allocated

## A/E Procurement

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Beginning with capitalization grants awarded after October 1, 2014, architectural and engineering (A/E) contracts for projects using funds directly made available by a capitalization grant must comply with the elements of procurement processes for A/E services as identified in 40 U.S.C. 1101 or an equivalent State qualifications-based requirement.



# Build America Buy America

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For SRF recipients, BABA expands existing American Iron and Steel (AIS) requirements (which EPA has implemented since 2014) to include construction materials and manufactured goods.

The Bipartisan Infrastructure Law includes the Build America, Buy America Act (Buy America) requirements which places additional requirements on the CWSRF Program. The United States must make significant investments to install, upgrade, or replace the public works infrastructure of the United States; with respect to investments in the infrastructure of the United States, taxpayers expect that their public works infrastructure will be produced in the United States by American workers. These new Buy America requirements will be placed on federal equivalency infrastructure projects.

## Current Program Status

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Since its inception, the State Revolving Fund has been steadily increasing and has grown into a permanent source of financial assistance for the construction of water quality projects throughout the State of Utah. Each year, there are water quality projects in Utah that do not receive funding directly from the SRF. Utah encourages community self-reliance through prudent planning and cooperative efforts to utilize other sources of available financial assistance.

Many of the larger wastewater treatment facilities located in high population areas of the State can afford construction financing without utilization of the State Revolving Fund. Medium-sized communities rely heavily on the SRF to provide additional assistance, making wastewater treatment affordable to their citizens. To achieve efficient and affordable public health and water quality solutions, communities with small populations use the USDA Rural Development and Utah Wastewater Project Assistance Program financing for loans and grants for their wastewater projects. The Utah Community Impact Board funding is used by communities located within impacted (mineral extracting) counties.

DWQ continues to work with communities to provide construction assistance and to improve water quality for the State of Utah.

**UTAH DEPARTMENT OF ENVIRONMENTAL QUALITY  
DIVISION OF WATER QUALITY - STATE REVOLVING FUND  
UNAUDITED STATEMENT OF NET ASSETS  
June 30, 2022**

**ASSETS**

**CURRENT ASSETS**

Cash & Cash Equivalents	\$ 72,396,974
Receivables:	
Amount due from EPA	5,260,801
Amount due from State	66,331
Loan interest	1,485,013
Hardship assessments	760,340
Loan origination fees	135,000
Loans Receivable	14,762,539
Total current assets	94,866,998

**NONCURRENT ASSETS**

Loans receivable	243,015,365
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**TOTAL ASSETS**

337,882,363

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

**CURRENT LIABILITIES**

Deposits	-
Due to State	68,970
Due to Other Funds	6,114
Accounts Payable	228,665
	303,749

**TOTAL LIABILITIES**

303,749

**NET ASSETS**

Unrestricted	337,578,614
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**TOTAL NET ASSETS**

\$ 337,578,614

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

**UTAH DEPARTMENT OF ENVIRONMENTAL QUALITY  
DIVISION OF WATER QUALITY - STATE REVOLVING FUND  
UNAUDITED STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
June 30, 2022**

	<b>Total</b>
<b>OPERATING REVENUES</b>	
Loan interest	\$ 1,654,941
Hardship assessments	884,369
Late Fees	839
EPA Program Administration Fees	338,808
Loan Origination Fees	235,000
Total Operating Revenues	3,113,957
<b>OPERATING EXPENSES</b>	
Hardship grants	4,361,220
Principal Forgiveness	-
EPA Program Administration	420,620
Total Operating Expenses	4,781,840
<b>OPERATING INCOME (LOSS)</b>	(1,667,883)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment income	(52,014)
EPA capitalization grants - Loans	22,092,801
EPA capitalization grants - Principal Forgiveness	-
State match	3,343,000
State funds	-
Transfers in	81,812
Transfers out	(80,000)
Total nonoperating revenues(expenses)	25,385,599
<b>CHANGE IN NET ASSETS</b>	23,717,716
<b>NET ASSETS, BEGINNING OF YEAR</b>	313,860,898
<b>PRIOR PERIOD ADJUSTMENT</b>	0
<b>ADJUSTED BEGINNING BALANCE</b>	313,860,898
<b>NET ASSETS, END OF YEAR</b>	\$ 337,578,614

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

UTAH DEPARTMENT OF ENVIRONMENTAL QUALITY  
DIVISION OF WATER QUALITY - STATE REVOLVING FUND  
UNAUDITED STATEMENT OF CASH FLOWS  
June 30, 2022

	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from loan interest and penalties	\$ 1,375,899
Cash received from hardship assessments	822,662
Loan origination fees received	100,000
Loans disbursed	(23,073,647)
Hardship grants disbursed	(4,284,832)
Principal received on loans receivable	24,165,485
Principal forgiveness disbursed	-
Grant awards	285,258
Program administration	(385,135)
Charges for services	-
Contractor Retainage	36,100
Project administration	-
Net cash (required) by operating activities	(958,210)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Funds received from EPA capitalization grants - Loans	17,332,000
Funds received from EPA capitalization grants - Principal F	-
Transfers in	81,811
Transfers out	(80,000)
Funds received from State of Utah	3,343,000
Net cash provided by noncapital financing activities	20,676,811
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Net investment income received	(52,014)
Net cash provided by investing activities	(52,014)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	19,666,587
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	52,730,387
<b>PRIOR YEAR ADJUSTMENT</b>	-
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 72,396,974</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ (1,667,883)
Changes in assets and liabilities related to operations:	
(Increase)/Decrease in loan interest receivable	(279,881)
(Increase)/Decrease in hardship assessments receivable	(61,708)
(Increase)/Decrease in amount due from EPA	(53,549)
(Decrease)/Increase in amount due from State	-
(Decrease)/Increase accounts payable	112,488
(Decrease)/Increase in amount deposits	-
(Decrease)/Increase in amount due to State	35,485
(Decrease)/Increase in amount due to Other Funds	-
(Increase)/Decrease accounts receivable	(135,000)
(Increase)/Decrease loans receivable	1,091,838
Net cash (required) by operating activities	<b>\$ (958,210)</b>

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

# Notes to Clean Water SRF Financial Statements

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## Note 1 - Definition of Reporting Entity

Fund) program was established pursuant to federal action to provide low interest rate loans to public wastewater systems for preservation and protection projects that meet eligibility requirements. The United States Environmental Protection Agency (EPA) allows for reasonable costs of administering the program to be funded by the SRF Capitalization Grant. The maximum annual amount may be the greatest of the following:

- An amount equal to 4 percent of all grant awards received by a State CWSRF less any amounts that have been used in previous years to cover administrative expenses;
- \$400,000; or
- 1/5 percent of the current valuation of the fund

The Division of Water Quality has traditionally used \$400,000 for annual administrative costs incurred by the program. This year, The Division of Water Quality has opted to use an amount equal to 4 percent of all grant awards. Funding from the administrative portion of the capitalization grant and from the collection of loan origination fees allows for the supervision of the SRF program as well as for oversight of individual projects.

The Water Quality Board (the Board) has nine members appointed by the Governor. The Board develops policies and procedures for program implementation and authorizes loans under the SRF program. The Utah Department of Environmental Quality (DEQ) and the Board jointly manage the SRF program. DEQ -Division of Water Quality reviews loan applications for eligibility, prioritizes eligible projects, monitors loan disbursements and repayments, and conducts project inspections. Through the Utah Code, the legislature has given the Board rule making authority that meets federal law requirements. The Board reviews each loan applicant to determine its ability to repay the loan, its readiness to proceed with the project, and its ability to complete the project.

The SRF program receives assistance and support from the Department of Environmental Quality - Office of Support Services, the Department of Administrative Services - Division of Finance, the Utah Attorney General's Office, and the State Treasurer's Office. Salaries

and benefits of employees as well as indirect costs based on direct salary costs are accumulated in the state's general fund and charged to the SRF based on actual time spent on SRF activities. Employees who charge time to the SRF are covered by the State of Utah personnel benefits plan.

The SRF program is funded by a series of capitalization grant awards from EPA. Grant conditions require States to provide twenty percent (20%) matching funds to the federal Capitalization Grant.

The Fund follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The SRF program and activities are included in the Utah Comprehensive Annual Financial Report (CAFR) as part of the Proprietary Funds (Water Loan Programs). The SRF assets, liabilities, and net assets are combined with other state programs and are not separately identifiable.

## Note 2 - Summary of Significant Accounting Policies

The accounting policies of the Fund conform to generally accepted accounting principles as applicable to a governmental unit accounted for as a proprietary enterprise fund. The enterprise fund is used since the Fund's powers are related to those operated in a manner similar to a for profit business where an increase in net assets is an appropriate determination of accountability.

### **Basis of Accounting**

The SRF financial statements are presented as an enterprise fund. Revenues are recorded when earned expenses are recorded and when the related liability is incurred, regardless of the timing of the cash flows. All assets and liabilities associated with the operation of the SRF are included in the statement of net assets. The SRF has elected to follow the accounting pronouncements of the Governmental Accounting Standards Board (GASB), as well as statements issued by the Financial Accounting Standards Board (FASB) on or before

November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements.

## **Cash and Cash Equivalents**

In accordance with the Money Management Act, Section 51-7 of the Utah Code, the State Treasurer administers cash and manages investments in the State. The Money Management Act specifies the investments that may be made, which are only high-grade securities. Investments include variable rate corporate notes and obligations of U.S. government agencies that base their rates on standard quoted money market indexes that have a direct correlation to the federal funds rate.

Therefore, there is very little market risk because the investments follow the normal swings of interest rates. Cash equivalents are generally considered short-term highly liquid investments with maturity of three months or less from the purchase date.

All funds deposited with the Treasurer are considered to be cash or cash equivalents regardless of the actual maturities of the underlying investments in the statement of cash flows. Investments in debt and equity securities are reported at fair value in the statement of net assets, and all investment income, including changes in the fair value, are reported in the statement of revenue, expenses, and changes in fund net assets.

When cash is transferred from the fund for a loan closing to an escrow account the transaction is recorded as an expense for a principal forgiveness agreement and a loan receivable for a loan agreement at the time of transfer. At year end the program identifies all unused funds in escrow and puts them back on the books as a short-term asset in cash and cash equivalents. The escrow cash is recognized as restricted cash with a corresponding reduction in loans receivable.

## **Operating Revenues and Expenses**

The SRF distinguishes between operating revenues and expenses and non-operating items in the statements of revenues, expenses, and changes in net assets. Operating revenues and expenses generally result from carrying out the purpose of the SRF, which is to provide low interest loans to communities and assistance for prevention programs and administration. Operating revenues consist of loan and interest payments from borrowers. Operating expenses include direct salary costs and benefits, indirect costs, and allowance for bad debt. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions.

The EPA capitalization grant and the associated State match are recorded as capital contributions, except for principal forgiveness which is reported as non-operating revenue, and the administrative match which is reflected as operating revenue.

When both restricted and unrestricted resources are available for use, it is the Fund's policy to follow the State of Utah's policy as defined in the State of Utah Comprehensive Annual Financial Report.

### **Hardship Assessments**

The Board has the option to charge a hardship assessment in lieu of interest on loans made from the repayment stream, also known as 2nd Round funds. Hardship assessments are calculated and paid in the same manner as interest. The restriction for the use of hardship assessments differs from the restriction for the use of interest. Hardship assessments can be used for purposes other than loans, including grants to disadvantaged communities.

### **Loan Origination Fee**

The Water Quality Board may charge a Loan Origination Fee up to 1% of the principal loan amount. This fee may be used for any allowable activities under the Act and administration of the loan program.

### **Budgets**

The SRF, as an enterprise fund of the State, does not require appropriation. Even so, the legislature reviews SRF amounts and authorizes an annual budget.

### **Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes during the reporting period. Actual results could differ from those estimates.



## Loans Receivable

Loans are funded by capitalization grants from the EPA, State matching funds, loan repayments and interest earnings. Interest is calculated from the date that funds are advanced. After the final disbursement has been made, the loan agreement is adjusted for the actual amounts disbursed. Loans are amortized for up to 30 years. Loan repayments must begin within one year of construction completion and are made on an annual basis. For projects receiving principal forgiveness, monies are advanced and forgiven as each disbursement occurs. Loan agreements require repayment of the forgiven loan if all program requirements are not met.

## Allowance for Bad Debts

The allowance for bad debts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Loans receivable are charged against the allowance for bad debts when management believes that the principal being uncollectable is probable. The allowance for bad debts was \$0.00 on June 30, 2022.

## Note 3 - Cash and Investments

All monies of the SRF are deposited with the Utah State Treasurer and are considered cash and cash equivalents. All cash deposited with the State Treasurer is maintained by the Treasurer in various pooled investment funds. The State Treasurer invests the deposited cash, including the cash float, in short term securities and other investments.

The Utah State Treasurer's Office operates the Public Treasurers Investment Fund (PTIF) investment pool. The PTIF is available for investment of funds administered by any Utah public treasurer. Participation is not required, and no minimum balance or minimum/maximum transaction is required. State agencies and funds that are authorized to earn interest also invest in the PTIF as an internal investment pool. No separate report as an external investment pool has been issued for the PTIF. Details of the investments of the PTIF can be obtained from the State Treasurer.

The PTIF is not registered with the SEC as an investment company and is not rated. The PTIF is authorized and regulated by the Utah Money Management Act, (Utah Code Title 51, Chapter 7). The Act establishes the Money Management Council, which oversees the activities of the State Treasurer and the PTIF. The Act lists the investments that are

authorized which are high-grade securities which minimizes credit risk except in the most unusual and unforeseen circumstances.

Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

Income, gains and losses, and net of administration fees of the PTIF are allocated to participants on the ratio of the participants' share of the total funds in the PTIF based on the participant's average daily balance. The PTIF allocates income and issues statements upon request. Twice a year, on June 30 and December 31, the investments are valued at fair value. The SRF has adjusted the PTIF funds to fair value as of June 30, 2022.

Investments in PTIF are not categorized because they are not evidenced by securities that exist in physical or book entry form. In Cash and cash equivalents are presented below:

Cash	\$39,033,697
Cash in Escrow with Trustee	\$31,671,730
Cash with PTIF in Escrow	<u>\$ 1,858,837</u>

Total cash and cash equivalents \$72,564,264

## Note 4 - Beginning Net Position Adjustments

On December 18, 2021, the Division of Finance made an adjustment to FY2021 revenues that was inadvertently not included in the FY 2021 statements. The adjustment moved an interest payment from the State Revolving loan fund to the Federal Hardship Grant fund. This adjustment resulted in a \$160,000 difference between the FY21 ending balance and the FY22 beginning balance.

## Note 5 - Loans Receivable

Loans are made to qualifying entities for projects that meet eligibility criteria. The SRF loan awards consist of the following funding sources: (1) the federal EPA Capitalization Grants; (2) State match funds; (3) loan repayments; (4) interest payments; and (5) SRF interest earnings. Projects are funded through the purchase of incremental disbursement bonds and proceeds are deposited into an escrow account based on a quarterly schedule of anticipated costs. Loan interest begins accruing when funds are deposited in the escrow

account. Principal repayment must begin no later than one year after the completion of the project.

Effective interest rates and hardship assessments on loans vary between 0.0 and 5.0 percent and are generally repaid over 20-30 years. The interest rates on the loans are generally lower than market rates and, in some cases, are non-interest bearing. Loans mature at various intervals and recipients make annual payments. Loans mature at various intervals through June 30, 2060 and the scheduled principal repayments on loans follows:

<b>Loans Receivable</b>	
<b>Year Ending June 30</b>	<b>Amount</b>
<b>2023</b>	\$14,762,539
<b>2024</b>	\$15,007,676
<b>2025</b>	\$15,191,042
<b>2026</b>	\$15,265,409
<b>2027</b>	\$15,063,565
<b>2028-2032</b>	\$55,272,906
<b>2033-2037</b>	\$74,767,131
<b>2038-2042</b>	\$38,099,000
<b>2043-2047</b>	\$8,691,000
<b>2048-2060</b>	\$5,657,636
<b>TOTAL</b>	\$257,777,904.15

## Loans to Major Local Agencies

The Fund has made loans to the following major local agencies. The aggregate outstanding loan balances for each of these agencies exceed five percent (5%) of total loans receivable. The combined outstanding loan balances on June 30, 2022 of these major local agencies represent approximately fifty seven percent (57%) of the total loans receivable and are as follows:

Loans to Major Local Agencies		
Borrower	Authorized Loan Amount	Outstanding Loan Balance
Central Valley Water Reclamation Facility	\$65,100,000	\$53,000,000
Logan City	\$90,000,000	\$85,671,000
Provo City	\$75,800,000	\$41,955,000
Salem City	\$20,000,000	\$18,873,000
<b>Total</b>	<b>\$250,900,000</b>	<b>\$199,499,000</b>

## Note 6 - Due to State of Utah

Due to the State of Utah, balances are an aggregation of amounts due to employees for salaries and benefits and/or vendors and miscellaneous suppliers paid by the state.

## Note 7 - Capital Contributions

The following table summarized the activity of the State's Clean Water Revolving Loan Fund by award year:

The following table summarizes the amount of state contributions made to meet match requirements of the EPA grant:

<b>Capital Contributions</b>					
<b>Year</b>	<b>Grant Award</b>	<b>Funds Drawn as of June 30, 2021</b>	<b>Funds Drawn During Year End June 30, 2022</b>	<b>Total Funds Drawn as of June 30, 2022</b>	<b>Available Funds as of June 30, 2022</b>
<b>1988 -2015</b>	\$200,202,394	\$200,202,394	\$0.00	\$200,202,394.00	\$0.00
<b>2009-ARRA</b>	\$20,649,900	\$20,649,900	\$0.00	\$20,649,900.00	\$0.00
<b>2016</b>	\$7,011,000	\$7,011,000	\$0.00	\$7,011,000	\$0.00
<b>2017</b>	\$6,956,000	\$6,956,000	\$0.00	\$6,956,000	\$0.00
<b>2018</b>	\$8,443,000	\$8,443,000	\$0.00	\$8,443,000	\$0.00
<b>2019</b>	\$8,357,000	\$1,791,980	\$6,516,609	\$8,308,589	\$48,411
<b>2020</b>	\$8,358,000	\$0.00	\$7,958,000	\$7,958,000	\$400,000
<b>2021</b>	\$8,357,000	\$0.00	\$7,957,000	\$7,957,000	\$400,000
<b>Totals</b>	\$268,334,294	\$245,054,274	\$22,431,609	\$267,485,883	\$848,411

State match paid as of June 30, 2021	\$47,254,998
State match paid during the year ended June 30, 2022	\$3,343,000
Total State match paid as of June 30, 2022	\$50,597,998

## Note 8 - Risk Management

The SRF is included in Utah’s Risk Management Fund, which provides insurance in case of loss or claims against the SRF. The State has elected, with a few exceptions, to be self-insured against loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, settled claims have not exceeded insurance coverage in the last three fiscal years. Refer to the State’s Risk Management disclosure in the June 30, 2021 Comprehensive Annual Financial Reports.

## Note 9 - Contingencies and Subsequent Events

As of June 30, 2022, the total remaining draws for SRF projects with closed loans was \$97,559,000. These draws will be processed during future fiscal years as wastewater project construction continues. As of June 30, 2022, the Board had authorized an additional \$19,187,000 in loan funding. However, loan closing had not been completed for four projects.

## Note 10 - Net Assets

Governmental Accounting Standards Board Statement No. 34 provides for three components of net assets: invested in capital assets, net of related debt, restricted and unrestricted. As of June 30, 2022, the Fund had no restricted net assets or net assets invested in capital assets, net of related debt. Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt or restricted. Although the Fund reports unrestricted net assets on the face of the statements of net assets, unrestricted net assets are to be used by the Fund for the payment of obligations incurred by the Fund in carrying out its statutory powers and duties and are to remain in the Fund.

# Supplementary Information

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**UTAH DEPARTMENT OF ENVIRONMENTAL QUALITY  
DIVISION OF WATER QUALITY - STATE REVOLVING FUND  
UNAUDITED COMBINING STATEMENT OF NET ASSETS  
June 30, 2022**

	<b>SRF Fund</b>	<b>Loan Origination Fee Fund</b>	<b>Hardship Fund</b>	<b>Total</b>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash & Cash Equivalents	\$ 66,024,154	\$ 2,018,067	\$ 4,354,753	\$ 72,396,974
Receivables:				
Amount due from EPA	5,260,801	-	-	5,260,801
Amount due from State	66,331	-	-	66,331
Loan interest	1,485,013	-	-	1,485,013
Hardship assessments	-	-	760,340	760,340
Loan origination fees	-	135,000	-	135,000
Loans receivable	14,684,162	-	78,377	14,762,539
Total current assets	<u>87,520,461</u>	<u>2,153,067</u>	<u>5,193,470</u>	<u>94,866,998</u>
<b>NONCURRENT ASSETS</b>				
Loans receivable	242,615,011	-	400,354	243,015,365
<b>TOTAL ASSETS</b>	<u>330,135,472</u>	<u>2,153,067</u>	<u>5,593,824</u>	<u>337,882,363</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Deposits	-	-	-	-
Due to State	41,657	-	27,313	68,970
Due to other funds	-	-	6,114	6,114
Accounts payable	32,279	-	196,386	228,665
<b>TOTAL LIABILITIES</b>	<u>73,936</u>	<u>-</u>	<u>229,813</u>	<u>303,749</u>
<b>NET ASSETS</b>				
Unrestricted	<u>330,061,536</u>	<u>2,153,067</u>	<u>5,364,011</u>	<u>337,578,614</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 330,061,536</u>	<u>\$ 2,153,067</u>	<u>\$ 5,364,011</u>	<u>\$ 337,578,614</u>

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



UTAH DEPARTMENT OF ENVIRONMENTAL QUALITY  
 DIVISION OF WATER QUALITY - STATE REVOLVING FUND  
 UNAUDITED COMBINING STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN FUND NET ASSETS  
 June 30, 2022

	SRF Loan Fund	Loan Origination Fee Fund	Hardship Fund	Total
<b>OPERATING REVENUES</b>				
Loan interest	\$1,654,941	\$ -	\$ -	\$ 1,654,941
Hardship assessments	-	-	884,369	884,369
Late fees	839	-	-	839
EPA Program Administration Fees	338,808	-	-	338,808
Loan Origination Fees	-	235,000	-	235,000
Total Operating Revenues	<u>\$1,994,588</u>	<u>235,000</u>	<u>884,369</u>	<u>3,113,957</u>
<b>OPERATING EXPENSES</b>				
Hardship grants	(3,820)	-	4,365,040	4,361,220
Principal Forgiveness	-	-	-	-
EPA Program Administration	420,620	-	-	420,620
Total Operating Expenses	<u>416,800</u>	<u>-</u>	<u>4,365,040</u>	<u>4,781,840</u>
<b>OPERATING INCOME (LOSS)</b>	<u>1,577,788</u>	<u>235,000</u>	<u>(3,480,671)</u>	<u>(1,667,883)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	(72,997)	-	20,983	(52,014)
EPA capitalization grants - Loans	22,092,801	-	-	22,092,801
EPA capitalization grants - Principal Forgiveness	-	-	-	-
State match	3,343,000	-	-	3,343,000
State funds	-	-	-	-
Transfers in	81,812	-	-	81,812
Transfers out	-	(80,000)	-	(80,000)
Total nonoperating revenues(expenses)	<u>25,444,616</u>	<u>(80,000)</u>	<u>20,983</u>	<u>25,385,599</u>
<b>CHANGE IN NET ASSETS</b>	<u>27,022,404</u>	<u>155,000</u>	<u>(3,459,688)</u>	<u>23,717,716</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	303,199,132	1,998,067	8,663,699	313,860,898
<b>PRIOR YEAR ADJUSTMENT</b>	(160,000)	-	160,000	-
<b>ADJUSTED BEGINNING BALANCE</b>	<u>303,039,132</u>	<u>1,998,067</u>	<u>8,823,699</u>	<u>313,860,898</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 330,061,536</u>	<u>\$ 2,153,067</u>	<u>\$ 5,364,011</u>	<u>\$ 337,578,614</u>

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

UTAH DEPARTMENT OF ENVIRONMENTAL QUALITY  
DIVISION OF WATER QUALITY - STATE REVOLVING FUND  
UNAUDITED COMBINING STATEMENT OF CASH FLOWS  
June 30, 2022

	SRF Loan Fund	Loan Origination Fee Fund	Hardship Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from loan interest and penalties	\$ 1,375,899	\$ -	\$ -	\$ 1,375,899
Cash received from hardship assessments	-	-	822,662	822,662
Loan origination fees received	-	100,000	-	100,000
Loans disbursed	(23,037,047)	-	(36,600)	(23,073,647)
Hardship grants disbursed	-	-	(4,284,832)	(4,284,832)
Principal received on loans receivable	22,892,102	-	1,273,383	24,165,485
Principal forgiveness disbursed	-	-	-	-
Grant awards	285,258	-	-	285,258
Program administration	(385,135)	-	-	(385,135)
Charges for services	-	-	-	-
Contractor Retainage	36,100	-	-	36,100
Project administration	-	-	-	-
Net cash (required) by operating activities	<u>1,167,177</u>	<u>100,000</u>	<u>(2,225,387)</u>	<u>(958,210)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Funds received from EPA capitalization grants - Loans	17,332,000	-	-	17,332,000
Funds received from EPA capitalization grants - Principal Forgiveness	-	-	-	-
Transfers in	81,811	-	-	81,811
Transfers out	-	(80,000)	-	(80,000)
Net funds received from State of Utah	3,343,000	-	-	3,343,000
Net cash provided by noncapital financing activities	<u>20,756,811</u>	<u>(80,000)</u>	<u>-</u>	<u>20,676,811</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net investment income received	(72,997)	-	20,983	(52,014)
Net cash provided by investing activities	<u>(72,997)</u>	<u>-</u>	<u>20,983</u>	<u>(52,014)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>21,850,991</u>	<u>20,000</u>	<u>(2,204,404)</u>	<u>19,666,587</u>
<b>PRIOR YEAR ADJUSTMENT</b>	44,333,163	1,998,067	6,399,157	52,730,387
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 66,024,154</u>	<u>\$ 2,018,067</u>	<u>\$ 4,354,753</u>	<u>\$ 72,396,974</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 1,577,788	\$ 235,000	\$ (3,480,671)	\$ (1,667,883)
Changes in assets and liabilities related to operations:				
(Increase)/Decrease in loan interest receivable	(279,881)	-	-	(279,881)
(Increase)/Decrease in hardship assessments receivable	-	-	(61,708)	(61,708)
(Increase)/Decrease in amount due from EPA	(53,549)	-	-	(53,549)
(Decrease)/Increase in amount due from State	-	-	-	-
(Decrease)/Increase accounts payable	32,279	-	80,209	112,488
(Decrease)/Increase in deposits	-	-	-	-
(Decrease)/Increase in amount due to State	35,485	-	-	35,485
(Decrease)/Increase in amount due to Other Funds	-	-	-	-
(Increase)/Decrease accounts receivable	-	(135,000)	-	(135,000)
(Increase)/Decrease loans receivable	(144,945)	-	1,236,783	1,091,838
Net cash (required) by operating activities	<u>\$ 1,167,177</u>	<u>\$ 100,000</u>	<u>\$ (2,225,387)</u>	<u>\$ (958,210)</u>

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