

Washington State Department of Ecology
Clean Water State Revolving Fund Loan Program
Lacey, Washington

Financial Statements

June 30, 2015 and 2014

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
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JUNE 30, 2015 AND 2014**

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INDEPENDENT AUDITORS' REPORT

Ms. Polly Zehm
Washington State Department of Ecology
Clean Water State Revolving Fund Loan Program
Lacey, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Washington State Department of Ecology, Clean Water State Revolving Fund Loan Program, a special revenue fund of the State of Washington, being reported as an enterprise fund, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Washington State Department of Ecology, Clean Water State Revolving Fund Loan Program as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 - Reporting Entity, the financial statements of the Washington State Department of Ecology, Clean Water State Revolving Fund Loan Program are intended to present the financial position, changes in financial position, and cash flows of only that portion of the State of Washington Department of Ecology that is attributable to the transactions of the Washington State Department of Ecology, Clean Water State Revolving Fund Loan Program. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2016, on our consideration of the Washington State Department of Ecology, Clean Water State Revolving Fund Loan Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Washington State Department of Ecology, Clean Water State Revolving Fund Loan Program's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Bellevue, Washington
February 12, 2016

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

This Management Discussion and Analysis (MD&A) introduces the annual financial statements of the State of Washington Department of Ecology, Clean Water State Revolving Fund Loan Program (CWSRF) for the years ended June 30, 2015 and 2014, and is a required supplement to these financial statements. It describes and analyzes the financial position of the CWSRF program providing an overview of the CWSRF's activities. The State of Washington Department of Ecology (Ecology) is responsible for the content of these financial statements. The MD&A provides readers with a summary of the issues and information Ecology management hopes is useful to the reader.

The CWSRF program

The CWSRF Account was established to provide financial assistance in the form of low-interest loans to local governments and tribes for high priority water quality projects. Ecology receives an annual grant from United States of America Environmental Protection Agency (EPA). The federal fiscal year (FFY) 2014 grant award was \$24,383,000. Ecology matches 20 percent of the grant award with state funds, or \$4,876,600. The funding levels for the CWSRF program for each fiscal year are based on federal appropriations, state legislative appropriations, repayments from past loans, interest on investments and de-obligated funds. The funding made available for projects in the state fiscal year (SFY) 2015 was \$180M as published in Ecology's June 30, 2015 Intended Use Plan. CWSRF loan interest rates are between zero and 2.7 percent.

Net position of the CWSRF

The CWSRF program has no capital assets and no related debt. The total amount of reported net position as of June 30, 2015 is \$888,225,779.

Using this Annual Financial Report

The financial statements included in this annual financial report are those of the CWSRF. As discussed in Note 1, Reporting Entity, the basic financial statements of the CWSRF are intended to present the financial position, changes in financial position June 30, 2015 and 2014, and cash flows of only that portion of the financial reporting entity of the Department of Ecology that is attributable to the transactions of the CWSRF. They do not purport to present the financial position of the Department of Ecology or the State of Washington (State) as of June 30, 2015 and 2014, and the change in their financial positions and their cash flows for the years then ended.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Overview of Financial Statements

This discussion and analysis is an introduction to the CWSRF financial statements and accompanying notes to financial statements. This report also contains required supplementary information and other information.

The financial statements of the CWSRF are presented as a special purpose government engaged only in the business type activities – providing loans to other governmental entities. The statements provide both short-term and long-term information about the CWSRF's financial position, which assists the reader in assessing the CWSRF's economic condition at the end of the fiscal year. These statements are prepared using the accrual basis of accounting. The financial statements include the following three statements:

- The *Statements of Net Position* present information on all of the CWSRF's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position are expected to serve as a useful indicator of whether the financial position of the CWSRF is improving or deteriorating.
- The *Statements of Revenues, Expenses, and Changes in Net Position* present information which reflects how the CWSRF's net position changed during the past year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.
- The *Statements of Cash Flows* report the CWSRF's cash flows from operating activities, noncapital financing activities, and investing activities.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes can be found immediately following the financial statements.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

Table 1

Net Position

	June 30,		
	2015	2014	2013
ASSETS			
Cash and cash equivalents	\$ 233,337,096	\$ 166,939,406	\$ 136,096,750
Loans receivable	661,520,717	680,892,634	666,856,267
All other assets	9,982,601	8,374,038	8,015,656
Total assets	904,840,414	856,206,078	810,968,673
LIABILITIES			
Current liabilities	16,614,635	7,017,081	8,490,174
Total liabilities	16,614,635	7,017,081	8,490,174
NET POSITION			
Restricted	888,225,779	849,188,997	802,478,499
Total net position	\$ 888,225,779	\$ 849,188,997	\$ 802,478,499

Changes in net position

During SFY15 the CWSRF cash increased by \$66,397,690, as can be seen on the Statement of Net Position. The increase in cash is a result of an emphasis to use funds from the EPA before using State revolving funds. Interest credited to the CWSRF account from the State Treasurer's Office totaled \$791,376. Cash received from EPA capitalization grant funds totaled \$18,191,115, and matching funds provided by the state of Washington totaled \$9,505,903. While cash increased from SFY14 to SFY15, Ecology would like to see cash continue to decrease as it awards more loans using cash flow acceleration for priority water quality projects throughout the state in 2015. The change in loans receivable is due to disbursing new loans in an amount less than receipts on existing loans. The amount of loans disbursed during the year was \$28,296,843. Principal payments received from borrowers during the year were \$47,266,135 and the principal forgiveness applied during the year was \$402,625. Administrative expenses paid to employees, vendors, and for indirect costs totaled \$2,844,443. Current Liabilities include \$9.8 Million due to other funds at the end of FY15. This represents amounts owed by the CWSRF to other state funds for services provided and payments made to sub-recipients on behalf of the CWSRF. This liability has been subsequently liquidated in 2016.

During fiscal year 2014, the CWSRF cash increased by \$30,842,656. Total loan repayments, including principal and interest received from borrowers was \$52,139,591. Loans disbursed during the year were \$56,433,314. Interest credited to the CWSRF account from the State Treasurer's Office totaled \$215,382. Administrative expenses paid to employees, vendors, and for indirect costs totaled \$1,664,826. Cash received from EPA capitalization grant funds totaled \$30,635,754, and matching funds provided by the state of Washington totaled \$5,950,069.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Table 2

Changes in Net Position

	Year Ended June 30,		
	2015	2014	2013
Revenues			
Program revenues:			
Loan interest income	\$ 12,226,612	\$ 12,506,051	\$ 11,421,732
General revenues:			
Investment income	791,376	215,382	323,281
Total revenues	13,017,988	12,721,433	11,745,013
Expenses			
Program expenses:			
Administrative expenses	1,260,708	1,308,812	1,205,023
Principal forgiveness	402,625	2,600,300	5,370,992
Total expenses	1,663,333	3,909,112	6,576,015
Increase in net position before contributions	11,354,655	8,812,321	5,168,998
Capital contributions:			
EPA capitalization grant	18,176,224	31,948,108	49,824,420
State and other contributions	9,505,903	5,950,069	7,750,000
Subtotal capital contributions	27,682,127	37,898,177	57,574,420
Change in net position	39,036,782	46,710,498	62,743,418
Net position - beginning of year	849,188,997	802,478,499	739,735,081
Net position - end of year	\$ 888,225,779	\$ 849,188,997	\$ 802,478,499

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
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Income for fiscal year 2015

Net operating income of the CWSRF for SFY15 was \$10,965,904. Operating income or loss includes those amounts earned by the ordinary activities of the program, less the related expenses. Ordinary activities of the program include interest earned on loans and interest earned on balances held with the State Treasurer's Office. Related expenses include salaries and benefits, supplies, travel, indirect costs, and equipment.

Net operating income increases the amount of net position in the program. Other increases to net position include amounts actually received from the EPA capitalization grant and amounts contributed as grant match by the state of Washington. In SFY15 the amount of federal funds earned was \$18,176,224 and the amount of state matching funds received during the year was \$9,505,903.

Income for fiscal year 2014

Net operating income of the CWSRF for SFY14 was \$11,197,239. Operating income or loss includes those amounts earned by the ordinary activities of the program, less the related expenses. Ordinary activities of the program include interest earned on loans and interest earned on balances held with the State Treasurer's Office. Related expenses include salaries and benefits, supplies, travel, indirect costs, and equipment.

Net operating income increases the amount of net position in the program. Other increases to net position include amounts actually received from the EPA capitalization grant and amounts contributed as grant match by the state of Washington. In SFY14 the amount of federal funds earned was \$31,948,108 and the amount of state matching funds received during the year was \$5,950,069.

State matching funds

For SFY's 2014 and 2015, State matching funds came from the State Taxable Building Construction Account. Revenue from that account is derived from a combination of bond proceeds and other miscellaneous revenue. Cash match of \$9.5 Million was received in SFY15. A portion of the amount was used in SFY 15. The remainder will be used as matching funds in SFY 16.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
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Economic Conditions and Outlook

Department of Ecology continues to improve Washington State's CWSRF program through strategic planning and funding program updates to address changing economic conditions. Changes and updates of policies, procedures and guidelines are addressed annually to ensure financial health and sustainability of the fund. Program statute and rules are also reviewed and updated periodically to address emerging water quality financial assistance needs. Fiscal year 2015 represents an improvement in funding demand (demand for future loans) compared to several previous years of lower demand for CWSRF loan funding, indicating a general improvement in the local government economic outlook, post economic downturn.

Ecology continues to work and coordinate closely with other state and federal infrastructure funders in Washington State in an effort to maximize the use of available federal and state funding. These coordination efforts result in funding program efficiencies, collaboration to meet local government financing needs, and improved marketing of funding programs. The Infrastructure Assistance Coordinating Council (IACC) is a unique Washington State organization that facilitates this ongoing funding collaboration. More information on the IACC can be found at: <http://www.infracfunding.wa.gov/>

For fiscal year 2015 (federal fiscal year 2014) the federal capitalization grant was approximately \$24 million, slightly more than the previous year. The outlook for ongoing federal funding generally indicates reductions in future capitalization grants to the SRF programs. Although capitalization grants are an important source of revenue, the CWSRF has a sound level of repayment and interest income that would sustain the revolving loan fund, albeit at a lower level. Ecology has implemented the use of a cash flow model to project and predict available fund resources each funding year, with a 20 year projected outlook. This model has enabled Ecology to award additional loan funding through available cash resources and accounts for ongoing repayments and program income and disbursements. Ecology accounts for possible reductions in the capitalization grant through the model.

Ecology has a well-structured loan agreement with conditions that limit risk of non-payment. To date there have been no issues related to non-payment of a CWSRF loan in Washington State.

Conclusion

This MD&A is intended to provide a summary of the financial condition of the CWSRF loan program and should be read in conjunction with the remainder of this report. The financial statements and footnotes contained in this annual report provide a detailed analysis of the program's financial position and results of operations.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

Requests for Information

The financial report is designed to provide interested parties with a general overview of the CWSRF program finances. Questions concerning the information provided in this report or requests for additional information should be addressed to Mr. Jeff Nejedly, Financial Management Section Manager, Dept. of Ecology - Water Quality Program, (360) 407-6572 <mailto:jeffrey.nejedly@ecy.wa.gov>

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014**

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 233,337,096	\$ 166,939,406
Collateral Held/Security Lending Agreements	6,116,710	4,690,715
Receivables:		
Due from federal government	1,354,788	1,369,679
Loan interest	2,332,229	2,195,208
Due from other funds	178,874	118,436
Loans receivable:		
Current portion	48,632,114	47,467,256
Total current assets	291,951,811	222,780,700
OTHER ASSETS		
Loans receivable:		
Noncurrent	612,888,603	633,425,378
Total other assets	612,888,603	633,425,378
TOTAL ASSETS	904,840,414	856,206,078
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	650,926	2,174,223
Due to other funds	9,846,999	152,143
Obligation Under Security Lending Agreement	6,116,710	4,690,715
Total current liabilities	16,614,635	7,017,081
NET POSITION		
Restricted	888,225,779	849,188,997
Total net position	\$ 888,225,779	\$ 849,188,997

See accompanying Notes to Financial Statements.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
 CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
OPERATING REVENUE		
Loan interest income	\$ 12,226,612	\$ 12,506,051
Total operating revenue	12,226,612	12,506,051
OPERATING EXPENSES		
Personnel services	924,793	948,652
Other expenses	335,915	360,160
Total operating expenses	1,260,708	1,308,812
INCOME FROM OPERATIONS	10,965,904	11,197,239
NONOPERATING REVENUE (EXPENSE)		
Net investment income	791,376	215,382
Loan Principal Forgiveness expense	(402,625)	(2,600,300)
Total nonoperating revenue (expense)	388,751	(2,384,918)
INCOME BEFORE CONTRIBUTIONS	11,354,655	8,812,321
CONTRIBUTIONS		
EPA capitalization grant	18,176,224	31,948,108
State match revenue	9,505,903	5,950,069
Total contributions	27,682,127	37,898,177
CHANGE IN NET POSITION	39,036,782	46,710,498
NET POSITION - BEGINNING OF YEAR	849,188,997	802,478,499
NET POSITION - END OF YEAR	\$ 888,225,779	\$ 849,188,997

See accompanying Notes to Financial Statements.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from interest on loans	\$ 12,089,591	\$ 12,342,944
Loans disbursed	(28,296,843)	(56,433,314)
Principal received on loans receivable	47,266,135	39,796,647
Cash paid to employees and vendors	(2,844,443)	(1,664,826)
Cash flows provided (required) by operating activities	28,214,440	(5,958,549)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funds received from EPA	18,191,115	30,635,754
Funds received from the state of Washington for state match	19,200,759	5,950,069
Cash flows provided by noncapital financing activities	37,391,874	36,585,823
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment income received	791,376	215,382
Net cash provided by investing activities	791,376	215,382
NET INCREASE IN CASH AND CASH EQUIVALENTS	66,397,690	30,842,656
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	166,939,406	136,096,750
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 233,337,096	\$ 166,939,406
Reconciliation of operating income to net cash required by operating activities		
Income from operations	\$ 10,965,904	\$ 11,197,239
Adjustments to reconcile income from operations to net cash required by operating activities:		
Effect of changes in operating assets and liabilities:		
Loan interest receivable	(137,021)	(163,107)
Due from other funds	(60,438)	(903)
Loans receivable	18,969,292	(16,636,667)
Accounts payable and accrued expenses	(1,523,297)	(474,412)
Due to other funds	-	119,301
Net cash provided (required) by operating activities	\$ 28,214,440	\$ (5,958,549)

During the years ended June 30, 2015 and 2014, in accordance with the EPA capitalization grant requirements, the program granted principal forgiveness of \$402,625 and \$2,600,300 respectively.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

1. Summary of Significant Accounting Policies

Reporting Entity

Washington's Water Pollution Control Revolving Account (The Account) was established pursuant to Title VI of the Federal Water Quality Act of 1987 (the Act) and RCW 90.50A.020. The Act established the Clean Water State Revolving Fund (CWSRF) program to replace the construction grants program. The Washington State Department of Ecology (Ecology) has exclusive responsibility for management of the CWSRF, per the Operating Agreement between the U.S. Environmental Protection Agency (EPA), Region 10, and Ecology. The accompanying financial statements are for the CWSRF and the Account, neither of which are legally separate entities.

Operation of the CWSRF and the Account

The CWSRF provides loans at reduced interest rates to finance qualified projects for the construction of publicly owned water pollution control facilities, non-point source pollution control projects, and the development and implementation of estuary conservation and management plans. Loans made by the Account must be repaid within 20 years, and all repayments, including interest and principal, must be credited to the Account.

States are required to provide an additional 20 percent of the Federal capitalization grant amount as matching funds in order to receive the grant from EPA. The State has been awarded \$677,784,460 in capitalization grants from 1989 through June 30, 2015. The State match share for that awarded amount is \$121,926,512. For the year ended June 30, 2014, the match was held in the State Taxable Building Construction Account (Account No. 355). The match portion included in Account No. 355 has been included as part of these financial statements in order to show the complete activity related to this program. In the year ended June 30, 2015, the match was removed from account 355 and a cash transfer was made into account 727 to cover matching commitments for the years ended June 30, 2014 and 2015.

The Account is administered by the Ecology through the Water Quality Program (WQP). The WQP's primary responsibilities for the CWSRF includes obtaining capitalization grants from EPA, soliciting potential interested parties, negotiating loan agreements with local communities, reviewing and approving payment requests from loan recipients, managing the loan repayments, and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

1. Summary of Significant Accounting Policies (Continued)

Operation of the CWSRF and the Account (Continued)

The Account does not have any full-time employees. Ecology employees charge the Account for actual time worked on CWSRF activities. The charges include the salaries and benefits of the employees as well as indirect costs allocated to the Account based on direct salary and benefit costs. Employees charging time to the Account are covered by the benefits available to Washington State Employees.

Basis of Accounting

The Account 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 financial statements for the Account are presented as an enterprise fund and are reported using the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded as earned and expenses are recorded when the liability is incurred. The enterprise fund is used since the Account's powers are related to those operated in a manner similar to a for profit business where an increase in net position is an appropriate determination of accountability. The Account is included in the state of Washington's basic financial statements as a special revenue fund, which uses the modified accrual basis of accounting. Due to differences in reporting methods, there may be differences between the amounts reported in these financial statements and the state of Washington's basic financial statements.

Implementation of New Standards

The effect of the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 has not been reported on these financial statements as the amounts related to GASB 68 are not intended to be recorded in these statements as the Account is reported in the State's Comprehensive Annual Financial Report as a governmental fund.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

All monies of the Account are deposited with the State Treasurer's Office and are considered cash. According to State law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Account. Consequently, Ecology staff that provide management of the Account do not have control over the investment of the excess cash. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

Loans Receivable

Ecology operates the Account as a direct loan program which makes loans to communities through funding by the Federal capitalization grant for 83.3 percent of the loan amount, and funding by State matching for 16.7 percent of the loan amount. Loan funds are disbursed to local entities after they expend funds for the purposes of the loan and then request reimbursement from the Account. Interest is calculated from the date the state warrant is mailed or the Electronic Fund Transfer settlement date. After the final disbursement, the loan amount and repayment schedule are adjusted for actual funds disbursed and interest accrued during the project period. No provision for uncollectible accounts has been made as management believes that all loans will be repaid according to the loan terms.

Forgivable Principal

During the June 30, 2012 fiscal year, the federal Appropriations Act of 2011 was passed by Congress. This Act authorized some of the same requirements that were introduced in the American Recovery and Reinvestment Act of 2010. One of these requirements is forgivable principal hardship loans. The maximum forgivable principal loan amount for each hardship recipient is \$5 million. Ecology awarded \$1,787,867 and \$1,127,903 in forgivable principal loans during the years ended June 30, 2015 and 2014, respectively, which is recognized upon loan closure when final amounts of the project are determined.

Net Position

Ecology reports net position as restricted due to the fact the resources in this Account are legally or contractually obligated to be spent on the Clean Water State Revolving Loan Fund Program in accordance with restrictions imposed by external third parties.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
NOTES TO FINANCIAL STATEMENTS
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1. Summary of Significant Accounting Policies (Continued)

Operating Revenues and Expenses

The Account distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from carrying out the purpose of the Account of providing low interest loans to communities and providing assistance for prevention programs and administration. Operating revenues consist of loan interest repayments from borrowers. Operating expenses include direct salary costs and benefits expenses, and allocated indirect costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

When both restricted and unrestricted resources are available for use, it is the Account's policy to use restricted resources first, then unrestricted resources as they are needed.

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.

2. Deposits and Investments

All monies of the Account are deposited with the State Treasurer's Office (OST) as part of the State's Treasury/Trust Portfolio, and are considered cash equivalents. The Treasurer is responsible for maintaining and investing the pooled cash balances in accordance with State laws. The Treasurer is required to maintain a mix of investment portfolios in order to allow funds to be withdrawn at any time to meet normal operating needs without prior notice or penalty. The Account's proportionate share of the investment income, based on the average daily balance for the period, is credited to the Account monthly. The Treasurer charges the Account one-half of one percent of the average daily balance for administration costs. As of June 30, 2015, total Treasurer's invested balance of the Treasury/Trust Fund Portfolio was \$5.20 billion. Details of the investments can be obtained from the State Treasurer's Office.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
 CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015 AND 2014**

2. Deposits and Investments (Continued)

All cash and investments are stated at cost, which approximates fair market value.

	<u>Carrying Amount</u>	<u>Market Value</u>
Treasury/Trust Portfolio June 30, 2015	<u>\$233,337,096</u>	<u>\$233,337,096</u>
Treasury/Trust Portfolio June 30, 2014	<u>\$166,939,406</u>	<u>\$166,939,406</u>

In accordance with the State investment policies, the State Treasurer participates in securities lending transactions.

The securities lending balances relating to investment securities owned by CWSRF and deposited into the OST are shown on the following table:

	<u>2015</u>	<u>2014</u>
CWSRF Securities on loan:		
Fair Value	<u>\$ 5,970,556</u>	<u>\$ 4,579,402</u>
Cash Collateral held by CWSRF:		
Fair Value	<u>\$ 6,116,710</u>	<u>\$ 4,690,715</u>
Reported Value	<u>\$ 6,116,710</u>	<u>\$ 4,690,715</u>
OST Securities on loan:		
Fair Value	<u>\$ 144,789,671</u>	<u>\$ 149,088,785</u>
Cash Collateral held by OST:		
Fair Value	<u>\$ 148,334,000</u>	<u>\$ 152,712,500</u>
Reported Value	<u>\$ 148,334,000</u>	<u>\$ 152,712,500</u>

Revised Code of Washington (RCW) 43.84.080, contract dated September 1, 2011 between the OST and Citibank, runs for four years with the possibility of a two-year extension. There were no violations of legal or contractual provisions.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

2. Deposits and Investments (Continued)

The OST lending agent lends US Government securities and US Agency securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. The cash is invested by the lending agent in repurchase agreements or money market instruments, in accordance with investment guidelines. The securities held as collateral, and the securities underlying the cash collateral are held by the custodian. The contract with the lending agent requires them to indemnify the OST if the borrowers fail to return the securities (and if collateral is inadequate to replace the securities lent) or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults.

As of June 30, 2015 and 2014, respectively, investment portfolio activity for the treasurer and treasurer trust account which include SRF fund securities on loan totaled \$145,078,266 book and \$144,789,671 fair value and \$148,996,041 book and \$149,088,785 fair value.

One June 30, 2015 and 2014, the average life of both the loans and the investment of cash received as collateral was one day.

The investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During fiscal year 2015, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST.

There were no losses resulting from a default of a borrower or lending agent during the year.

3. Loans Receivable

The Account makes loans to qualified entities for projects that meet the eligibility requirements of The Act. Loans are financed by capitalization grants, state matches, and revolving funds. Interest rates for SFY 2015 were established at 1.4 percent for up to a five year-term and 2.4 percent for loans with more than a five-year term, but no more than 20 years. The Account also makes hardship loans with a variable interest rate, as low as zero, to communities that can demonstrate financial hardship on residential ratepayers in the form of sewer user fees. Loan repayments are required to start one year after initiation of operations or project completion, whichever occurs first.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
 CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015 AND 2014**

3. Loans Receivable (Continued)

As of June 30, 2015 and 2014, the Account had total binding commitments of \$148,895,238 and \$115,590,652, respectively, which meets the program requirement of committing 120% of the federal grant payment within one year following receipt. Federal funds awarded to date including ARRA Federal funds is \$677,784,460 and \$653,401,460 as of June 30, 2015 and 2014, respectively. Loan obligations as of June 30, 2015, which include state matching requirements and principal and interest collected from repayment, were \$1,555,955,959. Loan obligations as of June 30, 2014 which include state matching requirements and principal and interest collected from repayment were \$1,407,347,855.

Loans by Category

Loans receivable by project status at June 30, 2015 are as follows:

	<u>Loan Authorized</u>	<u>Remaining Commitment</u>	<u>Receivable Balances</u>
Completed projects	\$ 969,029,768	\$ -	\$ 624,808,060
Projects in progress	321,778,361	285,065,704	<u>36,712,657</u>
Total			661,520,717
Payment requests in progress (Received as of June 30, 2015, but not yet paid)			-
Less amount due in one year			<u>(48,632,114)</u>
Loans receivable, June 30, 2015 (Net of current maturities)			<u><u>\$ 612,888,603</u></u>

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

3. Loans Receivable (Continued)

Loans by Category (Continued)

Loans mature at various intervals. The scheduled minimum repayments on completely disbursed loans in subsequent years are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2016	\$ 11,417,701	\$ 48,632,114	\$ 60,049,815
2017	10,984,991	48,035,468	59,020,459
2018	10,102,038	48,539,096	58,641,134
2019	9,213,181	48,202,528	57,415,709
2020	8,345,187	47,367,503	55,712,690
2021-2025	30,287,287	208,365,681	238,652,968
2026-2030	13,398,503	133,050,216	146,448,719
2031-2035	2,087,510	43,770,959	45,858,469
Total	<u>\$ 95,836,398</u>	<u>625,963,565</u>	<u>\$ 721,799,963</u>
Loans not yet in repayment		<u>35,557,152</u>	
Total loans receivable		<u>\$ 661,520,717</u>	

Loans receivable by project status at June 30, 2014 are as follows:

	<u>Loan Authorized</u>	<u>Remaining Commitment</u>	<u>Receivable Balances</u>
Completed projects	\$ 898,023,903	\$ -	\$ 593,300,713
Projects in progress	200,180,321	112,588,400	<u>87,591,921</u>
Total			680,892,634
Payment requests in progress (Received as of June 30, 2014, but not yet paid)			-
Less amount due in one year			<u>(47,467,256)</u>
Loans receivable, June 30, 2014 (Net of current maturities)			<u>\$ 633,425,378</u>

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
 CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015 AND 2014**

3. Loans Receivable (Continued)

Loans to Major Local Entities

As of June 30, 2015, the Account made loans to the following major local entities. The aggregate outstanding balance for each of these entities exceeds 5 percent of total loans receivable. The combined outstanding balances of these loans at June 30, 2015 and 2014 represent approximately 43.2 and 40.2 percent of the total loans receivable and are as follows:

(Figures are in Thousands)

<u>Borrower</u>	2015		2014
	<u>Authorized Loan Amount</u>	<u>Outstanding Loan Balance</u>	<u>Outstanding Loan Balance</u>
City of Tacoma	\$ 73,701	\$ 53,820	\$ 57,449
King County Department of Natural Resources	183,643	127,261	109,972
Lake Stevens Sewer District	45,202	44,097	46,088
Lott Wastewater Alliance	71,685	60,620	60,470
	<u>\$ 374,231</u>	<u>\$ 285,798</u>	<u>\$ 273,979</u>

The loan amount at completion may not agree with the authorized loan amount plus capitalized project period interest. Communities may elect to pay capitalized project period interest separately or add the amount to the final loan amount. Further, the authorized loan amount is based on estimates, and final project costs may be different than estimated.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

4. Capital Contributions

The Account is funded by grants from EPA authorized by the Clean Water Act and by matching funds from the State. All funds drawn are recorded as contributions from the EPA and Washington State. Since 1989, EPA has awarded a total of approximately \$677,784,000 in grants to the State, of which approximately \$632,297,000 has been drawn for loans and administrative expenses. The State has provided a total of approximately \$112,832,000 in matching funds for that total drawn amount. The following summarizes the grants awarded, amounts drawn on each grant as of the statement of net position date, and balances available for future loans:

(Figures are in Thousands)

Year	Grant Award	Funds Drawn As of June 30, 2013	Funds Drawn During Year Ended June 30, 2014	Funds Drawn As of June 30, 2014	Funds Drawn During Year Ended June 30, 2015	Funds Drawn As of June 30, 2015	Available for Loans as of June 30, 2015
1989-2009	\$ 476,311	\$ 476,311	\$ -	\$ 476,311	\$ -	\$ 476,311	\$ -
2010	35,433	35,433	-	35,433	-	35,433	-
2011	25,680	3,373	22,307	25,680	-	25,680	-
2012	24,578	-	8,545	8,545	16,033	24,578	-
2013	23,247	-	-	-	2,143	2,143	21,104
2014	24,383	-	-	-	-	-	24,383
	<u>609,632</u>	<u>515,117</u>	<u>30,852</u>	<u>545,969</u>	<u>18,176</u>	<u>564,145</u>	<u>45,487</u>
2008-ARRA	68,152	67,056	1,096	68,152	-	68,152	-
	<u>\$ 677,784</u>	<u>\$ 582,173</u>	<u>\$ 31,948</u>	<u>\$ 614,121</u>	<u>\$ 18,176</u>	<u>\$ 632,297</u>	<u>\$ 45,487</u>

(Figures are in Thousands)

	State Match Applied As of June 30, 2013	State Match Applied During Year Ended June 30, 2014	State Match Applied As of June 30, 2014	State Match Applied During Year Ended June 30, 2015	State Match Applied As of June 30, 2015
State Disbursed	<u>\$ 103,024</u>	<u>\$ 6,172</u>	<u>\$ 109,196</u>	<u>\$ 3,636</u>	<u>\$ 112,832</u>

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
 CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015 AND 2014**

4. Capital Contributions (Continued)

Administrative Fund

In July 2013, legislation in the state of Washington became effective which allows CWSRF to collect a service charge on loans which will be used for administrative costs. The fees collected and the expenses incurred are not included in the accompanying financial statements. Revenue collected and expenses incurred for the administrative fund are as follows:

	June 30, 2015	June 30, 2014
Administrative fee collected	\$ 1,189,363	\$ 15,278
Interest on admin fee collected	947	-
	\$ 1,190,310	\$ 15,278
Operating expenses incurred	\$ -	\$ -

5. Contingencies and Subsequent Events

Contingencies

The Account is exposed to various risks of loss, related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Account business, or acts of God. The state of Washington operates a self-insurance liability program pursuant to RCW 4.92.130. The Account maintains insurance for all risks of loss which is included in the indirect costs allocated to the Account. There have not been any claims against the Account since its inception in 1989. Refer to the State's Risk Management disclosure in the June 30, 2015 and 2014, Comprehensive Annual Financial Reports.

Additional Information

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Ms. Polly Zehm
Washington State Department of Ecology
Clean Water State Revolving Fund Loan Program
Lacey, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Washington State Department of Ecology, Clean Water State Revolving Fund Loan Program (Ecology), a special revenue fund of the state of Washington, reported as an enterprise fund, as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated February 12, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Washington State Department of Ecology, Clean Water State Revolving Fund Loan Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Bellevue, Washington
February 12, 2016

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015**

PART I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	___ yes	_√_ none reported
Significant deficiency(ies) identified not considered to be material weaknesses?	___ yes	_√_ none reported
Noncompliance material to financial statements noted?	___ yes	_√_ no

PART II - FINDINGS RELATED TO FINANCIAL STATEMENTS

None reported