

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM  
Lacey, Washington**

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2016 AND 2015**

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM  
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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, 2016 and 2015, 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.

### ***Opinion***

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, 2016 and 2015, 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.

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

***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, 2016 and 2015, 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 7 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 March 6, 2017, 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  
March 6, 2017

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015**

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, 2016 and 2015, 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) 2015 grant award was \$24,258,000. Ecology matches 20 percent of the grant award with state funds, or \$4,851,600. 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) 2016 was \$143M as published in Ecology's July 2016 Intended Use Plan. CWSRF loan interest rates are between zero and 2.4 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, 2016, is \$967,248,001.

**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, and cash flows as of and for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, and the changes in their net positions and their cash flows for the years then ended.

**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:

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- 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.

**Table 1**

**Net Position**

	June 30,		
	2016	2015	2014
<b>ASSETS</b>			
Cash and cash equivalents	\$ 189,943,767	\$ 233,337,096	\$ 166,939,406
Loans receivable	775,487,630	661,520,717	680,892,634
All other assets	8,671,883	9,982,601	8,374,038
<b>Total assets</b>	<b>974,103,280</b>	<b>904,840,414</b>	<b>856,206,078</b>
<b>LIABILITIES</b>			
Current liabilities	6,885,279	16,614,635	7,017,081
<b>Total liabilities</b>	<b>6,885,279</b>	<b>16,614,635</b>	<b>7,017,081</b>
<b>NET POSITION</b>			
Restricted	967,218,001	888,225,779	849,188,997
<b>Total net position</b>	<b>\$ 967,218,001</b>	<b>\$ 888,225,779</b>	<b>\$ 849,188,997</b>

**Changes in Net Position**

During SFY16, the CWSRF cash decreased by \$43,393,329, as seen on the Statement of Net Position. The decrease in cash is a result of awarding more loans. The State Treasurer's office credited \$1,343,235 in interest to the CWSRF account. The EPA capitalization grant funds provided \$62,921,340, and the State provided \$6,000,000 in matching funds. While cash decreased from SFY15 to SFY16, this is what Ecology expected as a result of it awarding more loans using cash flow acceleration for priority water quality projects throughout the State in 2016.

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The change in loans receivable is caused by disbursing new loans in an amount less than receipts on existing loans. Ecology disbursed \$166,507,572 in loans during the year. Ecology received \$52,540,659 in principal payments from borrowers and applied \$2,138,737 in principal forgiveness during the year. Ecology paid \$1,388,633 in administrative expenses to employees, vendors, and for indirect costs.

During fiscal year 2015, the CWSRF cash increased by \$66,397,690. Borrowers made \$47,266,135 in total loan repayments, including principal and interest. Ecology disbursed \$28,296,843 in loans during the year. The State Treasurer's Office credited \$791,376 in interest to the CWSRF account. Ecology paid \$2,844,444 in administrative expenses to employees, vendors, and for indirect costs. EPA capitalization grant funds provided \$18,191,115 in cash, and the State provided \$9,505,903 in matching funds.

**Table 2**  
**Changes in Net Position**

	Years Ended June 30,		
	2016	2015	2014
<b>Revenues</b>			
Program revenues:			
Loan interest income	\$ 12,287,200	\$ 12,226,612	\$ 12,506,051
General revenues:			
Investment income	1,343,235	791,376	215,382
Other income	46,881	-	-
<b>Total revenues</b>	<b>13,677,316</b>	<b>13,017,988</b>	<b>12,721,433</b>
<b>Expenses</b>			
Program expenses:			
Administrative expenses	1,467,697	1,260,708	1,308,812
Principal forgiveness	2,138,737	402,625	2,600,300
<b>Total expenses</b>	<b>3,606,434</b>	<b>1,663,333</b>	<b>3,909,112</b>
<b>Increase in net position before contributions</b>	<b>10,070,882</b>	<b>11,354,655</b>	<b>8,812,321</b>
<b>Capital contributions</b>			
EPA capitalization grant	62,921,340	18,176,224	31,948,108
State and other contributions	6,000,000	9,505,903	5,950,069
Subtotal capital contributions	<b>68,921,340</b>	<b>27,682,127</b>	<b>37,898,177</b>
<b>Change in net position</b>	<b>78,992,222</b>	<b>39,036,782</b>	<b>46,710,498</b>
<b>Net position - beginning of year</b>	<b>888,225,779</b>	<b>849,188,997</b>	<b>802,478,499</b>
<b>Net position - end of year</b>	<b>\$ 967,218,001</b>	<b>\$ 888,225,779</b>	<b>\$ 849,188,997</b>

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**Income for Fiscal Year 2016**

Net operating income of the CWSRF for SFY16 was \$10,819,503. Operating income or loss includes those amounts earned by the ordinary activities of the program, minus 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 net position in the program. Other increases to net position include amounts received from the EPA capitalization grant and amounts contributed as grant match by the State. In 2016, the CWSRF earned \$62,921,340 in federal funds and \$6,000,000 in State matching funds.

**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, minus 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 net position in the program. Other increases to net position include amounts received from the EPA capitalization grant and amounts contributed as grant match by the State. In SFY15 the CWSRF earned \$18,176,224 in federal funds and \$9,505,903 in State matching funds.

**State Matching Funds**

For SFYs 2015 and 2016, State matching funds came from the State Taxable Building Construction Account. Revenue from that account comes from a combination of bond proceeds and other miscellaneous revenue. CWSRF received a cash match of \$6 million in SFY16, which was used in SFY 16 plus the remaining portion from SFY 15.

**Economic Conditions and Outlook**

Ecology continues to improve Washington State's CWSRF program through strategic planning and funding program updates to address changing economic conditions. Annually, Ecology addresses changes and updates of policies, procedures, and guidelines to ensure financial health and sustainability of the fund. They also periodically review and update program statutes and rules to address emerging water quality financial assistance needs. SFY16 demand for funds continued to be higher than funds available. This demand indicates that local governments are moving forward with their infrastructure projects and points to a general improvement in the local government economic outlook after the economic downturn.



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For SFY16 (FFY15) the federal capitalization grant was approximately \$29 million, which was higher than the previous year. The outlook for ongoing federal funding generally points to 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 at a lower level. Ecology uses a cash flow model to project and predict available fund resources each funding year, with a 20-year projected outlook. This model has allowed Ecology to award additional loan funding through available cash resources and includes ongoing repayments, 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.

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.

**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  
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 STATEMENTS OF NET POSITION  
 JUNE 30, 2016 AND 2015**

<b>ASSETS</b>	2016	2015
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 189,943,767	\$ 233,337,096
Collateral Held/Security Lending Agreements	6,113,251	6,116,710
Receivables:		
Due from Federal Government	106,909	1,354,788
Loan Interest	2,282,380	2,332,229
Due from Other Funds	169,343	178,874
Loans Receivable:		
Current Portion	47,582,734	48,632,114
Total Current Assets	246,198,384	291,951,811
<b>OTHER ASSETS</b>		
Loans Receivable:		
Noncurrent	727,904,896	612,888,603
Total Other Assets	727,904,896	612,888,603
 Total Assets	 974,103,280	 904,840,414
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	753,019	650,926
Due to Other Funds	19,009	9,846,999
Obligation Under Security Lending Agreement	6,113,251	6,116,710
Total Current Liabilities	6,885,279	16,614,635
<b>NET POSITION</b>		
Restricted	967,218,001	888,225,779
Total Net Position	\$ 967,218,001	\$ 888,225,779

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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUE</b>		
Loan Interest Income	\$ 12,287,200	\$ 12,226,612
Total Operating Revenue	<u>12,287,200</u>	<u>12,226,612</u>
<b>OPERATING EXPENSES</b>		
Personnel Services	951,340	924,793
Other Expenses	516,357	335,915
Total Operating Expenses	<u>1,467,697</u>	<u>1,260,708</u>
<b>INCOME FROM OPERATIONS</b>	10,819,503	10,965,904
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Net Investment Income	1,343,235	791,376
Loan Services	46,881	-
Loan Principal Forgiveness Expense	(2,138,737)	(402,625)
Total Nonoperating Revenue (Expense)	<u>(748,621)</u>	<u>388,751</u>
<b>INCOME BEFORE CONTRIBUTIONS</b>	10,070,882	11,354,655
<b>CONTRIBUTIONS</b>		
EPA Capitalization Grant	62,921,340	18,176,224
State Match Revenue	6,000,000	9,505,903
Total Contributions	<u>68,921,340</u>	<u>27,682,127</u>
<b>CHANGE IN NET POSITION</b>	78,992,222	39,036,782
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>888,225,779</u>	<u>849,188,997</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 967,218,001</u>	<u>\$ 888,225,779</u>

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, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Paid to Employees and Vendors	\$ (1,388,633)	\$ (2,844,444)
Cash Flows (Required) by Operating Activities	(1,388,633)	(2,844,444)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Funds Received from EPA	62,030,482	18,191,115
Funds Received from the State of Washington for State Match	(3,795,430)	19,200,759
Loan Services	46,881	-
Cash Flows Provided by Noncapital Financing Activities	58,281,933	37,391,874
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash Received from Interest on Loans	12,337,049	12,089,592
Loans Disbursed	(166,507,572)	(28,296,843)
Principal Received on Loans Receivable	52,540,659	47,266,135
Net Investment Income Received	1,343,235	791,376
Net Cash Provided (Required) by Investing Activities	(100,286,629)	31,850,260
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(43,393,329)	66,397,690
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	233,337,096	166,939,406
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 189,943,767	\$ 233,337,096
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH REQUIRED BY OPERATING ACTIVITIES</b>		
Income from Operations	\$ 10,819,503	\$ 10,965,904
Adjustments to Reconcile Income from Operations to Net Cash Required by Operating Activities:		
Cash Received from Interest on Loans	(12,337,049)	(12,089,592)
Loans Disbursed	166,507,572	28,296,843
Principal Received on Loans Receivable	(52,540,659)	(47,266,135)
Effect of Changes in Operating Assets and Liabilities:		
Loan Interest Receivable	49,849	(137,020)
Due from Other Funds	9,531	(60,438)
Loans Receivable	(113,966,913)	18,969,292
Accounts Payable and Accrued Expenses	69,533	(1,523,298)
Net Cash Required by Operating Activities	\$ (1,388,633)	\$ (2,844,444)

During the years ended June 30, 2016 and 2015, in accordance with the EPA capitalization grant requirements, the program granted principal forgiveness of \$2,138,737 and \$402,625, respectively.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
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**NOTE 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, nonpoint 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 of Washington (State) has been awarded \$702,042,460 in capitalization grants from 1989 through June 30, 2016. The State match share for that awarded amount is \$125,420,067.

The Account is administered by 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.

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.

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting (Continued)**

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'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's basic financial statements.

**Implementation of New Standards**

For the year ended June 30, 2016, the Fund adopted the provisions of GASB Statement No 72, *Fair Value Measurement and Application*, which is effective for financial statement periods beginning after June 15, 2015. GASB Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The adoption of this standard did not have a material impact on the Account's financial statements.

**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.

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CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 \$1,497,545 and \$1,787,867 in forgivable principal loans during the years ended June 30, 2016 and 2015, respectively, which is recognized upon loan closure when final amounts of the project are determined.

**Due From/To Other Funds**

Due from/to other funds represents amounts receivable or payable to other funds reported with Ecology.

**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 Fund Loan Program in accordance with restrictions imposed by external third parties.

**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.

In accordance with generally accepted accounting principles (GAAP), funds received from EPA and Washington State for the capitalization of the Account are recorded as funds from EPA and the State, as discussed in Note 4.

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.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
 CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reclassifications**

For comparability, certain 2015 amounts have been reclassified, where appropriate, to conform with the 2016 financial statement presentation.

**NOTE 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, 2016, total Treasurer's invested balance of the Treasury/Trust Fund Portfolio was \$6.3 billion. Details of the investments can be obtained from the State Treasurer's Office.

The OST reports investments held for U.S. government and agency debt securities at fair value. OST categorizes the fair value measurements of these investments within the fair value hierarchy established by generally accepted accounting principles as Level 2 investments, as they are valued using observable inputs including quoted prices for similar securities and interest rates. All other investments are reported at amortized cost. The necessary disclosures for the State's pooled investment program are included in the Comprehensive Annual Financial Report of the State of Washington.

	<u>Carrying Amount</u>	<u>Market Value</u>
Treasury/Trust Portfolio - June 30, 2016	<u>\$ 189,943,767</u>	<u>\$ 189,943,767</u>
Treasury/Trust Portfolio - June 30, 2015	<u>\$ 233,337,096</u>	<u>\$ 233,337,096</u>

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



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**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

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

	<u>2016</u>	<u>2015</u>
CWSRF Securities on Loan:		
Fair Value	<u>\$ 5,970,556</u>	<u>\$ 5,970,556</u>
Cash Collateral Held by CWSRF:		
Fair Value	<u>\$ 6,113,251</u>	<u>\$ 6,116,710</u>
Reported Value	<u>\$ 6,113,251</u>	<u>\$ 6,116,710</u>
OST Securities on Loan:		
Fair Value	<u>\$ 199,313,245</u>	<u>\$ 144,789,671</u>
Cash Collateral Held by OST:		
Fair Value	<u>\$ 203,986,375</u>	<u>\$ 148,334,000</u>
Reported Value	<u>\$ 203,986,375</u>	<u>\$ 148,334,000</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.

The OST lending agent lends U.S. Government securities and U.S. 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, 2016 and 2015, investment portfolio activity for the treasurer and treasurer trust account which include SRF fund securities on loan totaled \$196,725,233 book value and \$199,313,245 fair value, and \$145,078,266 book value and \$144,789,671 fair value, respectively.

One June 30, 2016 and 2015, 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 2016, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
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**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

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

**NOTE 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 2016 were established at 1.2 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.

As of June 30, 2016 and 2015, the Account had total binding commitments of \$136,491,519 and \$148,895,238, respectively, which meets the program requirement of committing 120 percent of the federal grant payment within one year following receipt. Federal funds awarded to date, including ARRA Federal funds, is \$702,042,460 and \$677,784,460 as of June 30, 2016 and 2015, respectively. Loan obligations as of June 30, 2016 and 2015, which include State matching requirements and principal and interest collected from repayment, were \$1,663,780,184 and \$1,555,955,959, respectively.

**Loans by Category**

Loans receivable by project status at June 30, 2016 are as follows:

	<u>Loan Authorized</u>	<u>Remaining Commitment</u>	<u>Receivable Balances</u>
Completed Projects	\$ 972,663,667	\$ -	\$ 589,002,185
Projects in Progress	338,196,613	151,711,168	<u>186,485,445</u>
Total			<u>775,487,630</u>
Payment Requests in Progress (Received as of June 30, 2016, But Not Yet Paid)			-
Less: Amount Due in One Year			<u>(47,582,734)</u>
Loans Receivable, June 30, 2016 (Net of Current Maturities)			<u><u>\$ 727,904,896</u></u>

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
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 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2016 AND 2015**

**NOTE 3 LOANS RECEIVABLE (CONTINUED)**

**Loans by Category (Continued)**

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			<u>661,520,717</u>
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>\$ 612,888,603</u>

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>
2017	\$ 10,822,980	\$ 47,582,734	\$ 58,405,714
2018	9,946,783	47,946,202	57,892,985
2019	9,100,345	47,360,380	56,460,725
2020	8,272,397	46,616,945	54,889,342
2021	7,481,355	44,718,672	52,200,027
2022-2026	26,258,258	195,586,746	221,845,004
2027-2031	10,006,882	111,549,359	121,556,241
2032-2036	6,593,944	47,641,147	54,235,091
Total	<u>\$ 88,482,944</u>	<u>589,002,185</u>	<u>\$ 677,485,129</u>
Loans Not Yet in Repayment		186,485,445	
Total Loans Receivable		<u>\$ 775,487,630</u>	

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
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 NOTES TO FINANCIAL STATEMENTS  
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**NOTE 3 LOANS RECEIVABLE (CONTINUED)**

**Loans to Major Local Entities**

As of June 30, 2016, 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, 2016 and 2015 represent approximately 48.98 and 43.2 percent of the total loans receivable and are as follows:

	2016	
<u>Borrower</u>	Authorized Loan Amount	Outstanding Loan Balance
Pierce County	\$ 60,556	\$ 60,881
Lott Wastewater Alliance	74,148	58,629
King County Department of Natural Resources	252,872	166,028
City of Tacoma	75,652	50,124
Lake Stevens Sewer District	53,457	44,187
Total	\$ 516,685	\$ 379,849

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

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  
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 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2016 AND 2015**

**NOTE 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 the State. Since 1989, EPA has awarded a total of approximately \$702,042,460 in grants to the State, of which approximately \$695,218,964 has been drawn for loans and administrative expenses. The State has provided a total of \$125,420,067 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, 2014	Funds Drawn During Year Ended June 30, 2015	Funds Drawn As of June 30, 2015	Funds Drawn During Year Ended June 30, 2016	Funds Drawn As of June 30, 2016	Available for Loans as of June 30, 2016
1989-2009	\$ 476,311	\$ 476,311	\$ -	\$ 476,311	\$ -	\$ 476,311	\$ -
2010	35,433	35,433	-	35,433	-	35,433	-
2011	25,680	25,680	-	25,680	-	25,680	-
2012	24,578	8,545	16,033	24,578	-	24,578	-
2013	23,247	-	2,143	2,143	21,104	23,247	-
2014	24,383	-	-	-	24,383	24,383	-
2015	24,258	-	-	-	17,434	17,434	6,824
Total	<u>633,890</u>	<u>545,969</u>	<u>18,176</u>	<u>564,145</u>	<u>62,921</u>	<u>627,066</u>	<u>6,824</u>
2008-ARRA	<u>68,152</u>	<u>67,056</u>	<u>1,096</u>	<u>68,152</u>	<u>-</u>	<u>68,152</u>	<u>-</u>
Total	<u>\$ 702,042</u>	<u>\$ 613,025</u>	<u>\$ 19,272</u>	<u>\$ 632,297</u>	<u>\$ 62,921</u>	<u>\$ 695,218</u>	<u>\$ 6,824</u>

(Figures are in Thousands)

	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 Match Applied During Year Ended June 30, 2016	State Match Applied As of June 30, 2016
State Disbursed	<u>\$ 109,196</u>	<u>\$ 3,636</u>	<u>\$ 112,832</u>	<u>\$ 12,588</u>	<u>\$ 125,420</u>

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
 CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2016 AND 2015**

**NOTE 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, 2016	June 30, 2015
Administrative Fee Collected	\$ 1,217,791	\$ 1,189,363
Interest on Administrative Fee Collected	9,156	947
Total	\$ 1,226,947	\$ 1,190,310
Operating Expenses Incurred	\$ -	\$ -

**NOTE 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 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, 2016 and 2015, State of Washington 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, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 6, 2017.

**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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as finding 2016-001 that we consider to be a significant deficiency.



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

**Compliance and Other Matters**

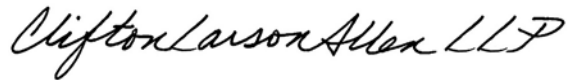
As part of obtaining reasonable assurance about whether the Washington State Department of Ecology, Clean Water State Revolving Fund Loan Program’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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*.

**Ecology’s Response to Finding**

Ecology’s response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Ecology’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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  
March 6, 2017

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2016**

**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	___ <input checked="" type="checkbox"/> none reported
Significant deficiency(ies) identified not considered to be material weaknesses?	___ <input checked="" type="checkbox"/> yes	___ none reported
Noncompliance material to financial statements noted?	___ yes	___ <input checked="" type="checkbox"/> no

**PART II - FINDINGS RELATED TO FINANCIAL STATEMENTS**

None

**PART III- FINDINGS RELATED TO INTERNAL CONTROLS**

*Finding 2016-001 Lack of Controls over Following Prescribed Policies for Disbursements*

**Significant Deficiency**

**Condition**

During our testing of internal controls over loan disbursements, we noted one instance where the respective preparer had not signed the A-19 form and one instance where the approver/releaser had not signed the disbursement batch worksheet. The signature on the A-19 form from the disbursement department indicates that the payments have been appropriately summed and equal the amount of the current request/payment date. The signature of the approver/releaser on the disbursement batch worksheet indicates that they have reviewed each of the attached A-19 forms and the total agrees to the disbursement worksheet total.

**Criteria**

Good internal controls require organizations to set up a process where when a report is prepared by one person, it is reviewed by another to help prevent fraud and that the preparer has taken responsibility of the accuracy and completeness of the form. The Department of Ecology policies and procedures require that there are signatures for sign off and preparer.

**Cause**

The cause is due to oversight on following the required policies and procedures for disbursements.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2016**

**Effect**

Without the appropriate preparer signature on the A-19 form, there is a risk that the requested disbursement amount will not be the correct total, and Department of Ecology could disbursement more or less than the borrower had been approved for by the project officer. Without the appropriate approver/releaser on the disbursement batch worksheet, there is a risk that the total batch being disbursed does not foot and that the amount released in the system does not agree.

**Recommendation**

We recommend that the approver/reviewer verify that there is the appropriate preparer signature on the A-19 form before signing off as approver/reviewer. We recommend that the approver/releaser of batches double check the batch disbursement worksheet is signed before releasing in the system.

**Views of Responsible Officials**

We agree with the Auditors' comments, and have implemented the following actions to correct this internal control weakness.

**Planned Corrective Action**

- Topic on Fiscal Manager's Meeting agenda for March 10 - Review "Processing Payments" Procedure, and discuss audit finding.
- Manager's to review procedures with their staff by March 31, 2017

**Anticipated Completion Date:**

March 31, 2017

**Responsible Individuals:**

Lisa Darnell, Jan Henry and Fiscal Managers (Carla Clarey, Gordon Dovell, Sheila Meyers, Debbie Iness, and Mark Gaffney)