

Management Discussion and Analysis

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, 2017 and 2016. It 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) 2016 grant award was \$23,235,000. Ecology matches 20 percent of the grant award with state funds, of \$4,647,000. 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) 2017 was \$109M as published in Ecology's Intended Use Plan. CWSRF loan interest rates are between zero and 2 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, 2017 is \$1,015,072,507.

Using this Annual Financial Report

The financial statements included in this annual financial report are those of the CWSRF. The basic financial statements of the CWSRF are intended to present the financial position, changes in financial position, and cash flows as of the years ended June 30, 2017 and 2016, 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, 2017 and 2016 and the change in their net positions and their cash flows for the years ten ended.

Overview of Financial Statements

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.

Table 1**Net Position**

	June 30,		
	2017	2016	2015
ASSETS			
Cash and cash equivalents	\$ 144,853,771	\$ 189,943,767	\$ 233,337,096
Loans receivable	871,299,096	775,487,630	661,520,717
All other assets	4,783,198	8,671,883	9,982,601
Total assets	1,020,936,065	974,103,280	904,840,414
LIABILITIES			
Current liabilities	5,863,556	6,885,279	16,614,635
Total liabilities	5,863,556	6,885,279	16,614,635
NET POSITION			
Unrestricted	1,015,072,509	967,218,001	888,225,779
Total net position	\$ 1,015,072,509	\$ 967,218,001	\$ 888,225,779

Changes in net position

During SFY17 the CWSRF cash decreased by \$45,089,996, 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 \$1,183,495 in interest to the CWSRF account. The EPA capitalization grant funds provided \$29,829,027, and the State of Washington provided \$ 6,000,000 in matching funds. While cash decreased from SFY16 to SFY17, 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 2017.

The change in loans receivable is caused by disbursing new loans in an amount less than receipts on existing loans. Ecology disbursed \$144,008,824 in loans during the year. Ecology received \$53,059,604 in principal payments from borrowers and applied \$1,963,274 in principal forgiveness during the year. Ecology paid \$1,193,876 in administrative expenses to employees, vendors, and for indirect costs.

During fiscal year 2016, the CWSRF cash decreased by \$43,393,329. Borrowers made \$52,540,659 in total loan repayments, including principal and interest.. Ecology disbursed \$166,507,572 in loans during the year. The State Treasurer’s Office credited \$1,343,235 in interest to the CWSRF account. Ecology paid \$1,467,697 in administrative expenses to employees, vendors, and for indirect costs. EPA capitalization grant funds provided \$62,921,340 in cash, and the State of Washington provided \$6,000,000 in matching funds.

**Table 2 – Revised
after Audit 12/27/17**

Changes in Net Position

	Year Ended June 30,		
	2017	2016	
Revenues			
Program revenues:			
Loan interest income	\$ 14,002,134	\$ 12,287,200	\$ 12,226,612
General revenues:			
Investment income	1,183,495	1,343,235	791,376
Other Income	0	0	0
Total revenues	<u>15,185,629</u>	<u>13,677,316</u>	<u>13,017,988</u>
Expenses			
Program expenses:			
Administrative expenses	1,196,876	1,467,697	1,260,708
Principal forgiveness	<u>1,963,274</u>	<u>2,138,737</u>	<u>402,625</u>
Total expenses	<u>3,160,150</u>	<u>3,606,434</u>	<u>1,663,333</u>
Increase in net position			
before contributions	<u>12,025,479</u>	<u>10,070,882</u>	<u>11,354,655</u>
Capital contributions:			
EPA capitalization grant	29,829,027	62,921,340	18,176,224
State and other contributions	<u>6,000,000</u>	<u>6,000,000</u>	<u>9,505,903</u>
Subtotal capital contributions	<u>\$ 35,829,027</u>	<u>\$ 68,921,340</u>	<u>\$ 27,682,127</u>

Table 2 continued.

Change in net position	\$ 47,854,506	\$ 78,992,222	\$ 9,036,782
Net Position - Beginning of Year, as previously reported	<u>967,218,001</u>	<u>888,225,779</u>	<u>849,188,997</u>
Prior period Adjustment		<u>46,881</u>	<u></u>
Net Position-Beginning of Year, as restated		<u>888,272,660</u>	<u></u>
Net position - end of year	<u><u>\$1,015,072,507</u></u>	<u><u>\$ 967,218,001</u></u>	<u><u>\$ 888,225,779</u></u>

Income for fiscal year 2017

Net operating income of the CWSRF for SFY17 was \$12,805,259. 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 of Washington. In 2017, the CWSRF earned \$29,829,027 in federal funds and \$6,000,000 in state matching funds.

Income for fiscal year 2016

Net operating income of the CWSRF for SFY16 was \$10,819,923. 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 of Washington. In SFY16 the CWSRF earned \$62,921,340 in federal funds and \$6,000,000 in state matching funds.

State matching funds

For SFYs 2016 and 2017, 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 SFY17, which was used in SFY 17 plus the remaining portion from SFY 16.

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 statute and rules to address emerging water quality financial assistance needs. SFY17 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.

For SFY17 (FFY16) the federal capitalization grant was approximately \$27.8 million (including match), which was lower 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.

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.

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 or jeffrey.nejedly@ecy.wa.gov.

The accompanying notes are an integral part of the financial statements

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. 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 \$725,277,460 in capitalization grants from 1989 through June 30, 2017. The State match share for that awarded amount is \$131,426,227.

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.

1. Summary of Significant Accounting Policies (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's basic financial statements as a special revenue account, 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 basic financial statements.

Implementation of New Standards

For the year ended June 30, 2017, there were not any new standards adopted. For the year ended June 30, 2016 the Account adopted the provisions of GASB Statement No 72, *Fair Value Measurement and Application*, which did not have a material impact on the Account's financial statements.

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 \$1,963,274 and \$2,138,737 in forgivable principal loans during the years ended June 30, 2017 and 2016, respectively, which is recognized upon loan closure when final amounts of the project are determined.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF ANNUAL REPORT FOR SFY 17 (7/1/16 – 6/30/17)
EXHIBIT 2: Disbursements and Accruals**

	SFY		
	2017	Federal	State-Match
2017 DISBURSEMENTS FOR LOANS	\$34,601,273	\$28,834,169	\$5,767,104
2017 DISBURSEMENTS FOR ADMIN	<u>\$ 1,193,876</u>	<u>\$ 994,857</u>	<u>\$ 199,019</u>
TOTAL DISBURSEMENTS	\$35,795,149	\$29,829,026	\$5,966,123
2017 CASH DRAW FROM CAPITALIZATION GRANTS	(\$29,829,026)		
2017 STATE MATCH (20% of CASH DRAWS)	(\$5,966,123)		
2017 100% STATE FUNDS DISBURSEMENTS	\$111,370,825		
TOTAL DISBURSEMENTS LOAN, ADMIN, FED AND STATE	\$147,165,974		
PERCENTAGE OF CASH DRAW FROM CAPITALIZATION GRANTS TO TOTAL DISBURSEMENTS	<u>83.33%</u>		
ADMIN CALCULATION	3.34%		

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF ANNUAL REPORT FOR SFY 17 (7/1/16-6/30/17)
EXHIBIT 3: Comparative Statement of Net Position**

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 144,853,771	\$ 189,943,767
Collateral Held/Security Lending Agreements	2,512,129	6,113,251
Receivables:		
Due from federal government	110,274	106,909
Loan interest	2,034,153	2,282,380
Due from other funds	126,642	169,343
Loans receivable:		
Current portion	51,361,440	47,582,734
	<u>\$ 200,998,409</u>	<u>\$ 246,198,384</u>
OTHER ASSETS		
Loans receivable:		
Noncurrent	819,937,656	727,904,896
Total other assets	<u>819,937,656</u>	<u>727,904,896</u>
	<u>1,020,936,065</u>	<u>974,103,280</u>
TOTAL ASSETS		
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	3,332,273	753,019
Due to other funds	19,155	19,009
Obligation Under Security Lending Agreement	2,512,129	6,113,251
Total current liabilities	<u>5,863,557</u>	<u>6,885,279</u>
NET POSITION		
Restricted	<u>\$1,015,072,507</u>	<u>\$ 967,218,001</u>
	<u>\$1,015,072,507</u>	<u>\$ 967,218,001</u>

**STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT
EXHIBIT 4: COMPARATIVE STATEMENT OF REVENUES**

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE		
Loan interest income	-	<u>12,287,200</u>
Total operating revenue	-	<u>12,287,200</u>
	14,002,134	
OPERATING EXPENSES		
Personnel services	785,467	951,340
Other expenses	<u>411,409</u>	<u>516,357</u>
Total operating expenses	<u>1,196,876</u>	<u>1,467,697</u>
INCOME FROM OPERATIONS	-	<u>10,819,503</u>
	12,805,258	
NONOPERATING REVENUE (EXPENSE)		
Net investment income	1,183,495	1,343,235
Prior Period Adj & Loan Services		46,881
Loan Principal Forgiveness expense	<u>(1,963,274)</u>	<u>(2,138,737)</u>
Total nonoperating revenue (expense)	<u>(779,779)</u>	<u>(748,621)</u>
INCOME BEFORE CONTRIBUTIONS	-	<u>10,070,882</u>
	12,025,479	
CONTRIBUTIONS		
EPA capitalization grant	29,829,027	62,921,340
State match revenue	<u>6,000,000</u>	<u>6,000,000</u>
Total contributions	<u>35,829,027</u>	<u>68,921,340</u>
CHANGE IN NET POSITION	47,854,506	78,992,222
NET POSITION - BEGINNING OF YEAR, as previously reported	<u>967,218,001</u>	<u>888,225,779</u>
Prior Period Adjustment		<u>46,881</u>
Net Position-Beginning of Year, as restated		<u>888,272,660</u>
NET POSITION - END OF YEAR	<u>\$1,015,072,507</u>	<u>\$ 967,218,001</u>

**STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT
EXHIBIT 5: COMPARATIVE STATEMENT OF CASH FLOWS**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash paid to employees and vendors	\$ 1,990,470	\$ (1,388,635)
Cash flows provided (required) by operating activities	1,990,470	(1,388,635)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funds received from EPA	29,718,753	62,030,483
Funds received from the state of Washington Loan Services	6,000,000	(3,795,429)
Cash flows provided by noncapital financing activities	35,718,753	46,881
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Received from Interest on Loans	\$ 12,401,527	\$12,337,049
Loans Disbursed	(144,008,824)	(166,507,572)
Principal received on Loans Receivable	47,583,289	52,540,660
Net investment income received	1,224,788	1,343,235
Net Cash Provided (Required) by Investing Activities	(82,799,220)	(100,286,628)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(45,089,997)	(43,393,329)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	189,943,768	233,337,097
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 144,843,771	\$ 189,943,768
Reconciliation of operating income to net cash required by operating activities		
Income from Operations	\$ 12,805,259	\$ 10,819,503
Adjustments to Reconcile Income from Operations to Net Cash Required by Operating Activities:		
Cash Received from Interest on Loans	(12,401,527)	(12,337,050)
Loans Disbursed	144,008,824	166,507,572
Principal Received on Loans Receivable	(47,583,289)	(52,540,660)

**STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT
EXHIBIT 5: COMPARATIVE STATEMENT OF CASH FLOWS**

**Effect of Changes in Operating Assets and
Liabilities:**

Loan Interest Receivable	(248,227)	49,849
Due to Other Funds	(42,701)	9,531
Loans Receivable	(97,496,569)	(113,966,913)
Accounts Payable and Accrued Expenses	2,948,700	69,531
Due to other funds	<u>0</u>	<u>0</u>
Net Cash Provided (Required) by Operating Activities	\$ 1,990,470	\$ (1,388,636)

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.

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 of Washington, 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.

Reclassifications

For comparability, certain 2016 amounts have been reclassified, where appropriate, to conform with the 2017 final statement presentation.

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, 2017, total Treasurer’s invested balance of the Treasury/Trust Fund Portfolio was \$6.9 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, 2017	<u>\$144,853,771</u>	<u>\$144,853,771</u>
Treasury/Trust Portfolio June 30, 2016	<u>\$189,943,767</u>	<u>\$189,943,767</u>

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF ANNUAL REPORT FOR SFY 17 (7/1/16 – 6/30/17)
EXHIBIT 1: Notes to the Financial Statements**

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>2017</u>	<u>2016</u>
CWSRF Securities on loan:		
Fair Value	\$ 2,450,570	\$ 5,973,202
	<u>2,450,570</u>	<u>5,973,202</u>
Cash Collateral held by CWSRF:		
Fair Value	2,512,129	6,113,251
Reported Value	2,512,129	6,113,251
	<u>2,512,129</u>	<u>6,113,251</u>
OST Securities on loan:		
Fair Value	\$ 117,290,519	\$ 199,313,245
	<u>117,290,519</u>	<u>199,313,245</u>
Cash Collateral held by OST:		
Fair Value	120,236,875	203,986,375
Reported Value	\$ 120,236,875	\$ 203,986,375
	<u>120,236,875</u>	<u>203,986,375</u>

2. Deposits and Investments (Continued)

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 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, 2017 and 2016, investment portfolio activity for the treasurer and treasurer trust account which include SRF fund securities on loan totaled \$144,853,771 book value and \$117,290,519 fair value, and \$196,725,233 book value and \$199,313,245 fair value respectively.

On June 30, 2017 and 2016, 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 2017, 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 2017 were established at 1 percent for up to a five year-term and 2 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, 2017 and 2016, the Account had total binding commitments of \$96,417,748 and \$136,491,519, 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 \$725,277,460 and \$702,042,460 as of June 30, 2017 and 2016, respectively. Loan obligations as of June 30, 2017 and 2016, which include state matching requirements and principal and interest collected from repayment, were \$1,728,675,811 and 1,663,780,184 respectively.

In fiscal year 2016 an overpayment of \$72,564 was returned to the department by City of Olympia. This amount was reduced from the Completed projects balance, but has not been adjusted in the State Agency Financial Reporting System. In addition there was a refund of \$46,881 for a prior period.

Loans by Category

	Loan Authorized	Remaining Commitment	Receivable Balances
Completed projects	\$ 1,025,969,052		\$ 626,213,552
Projects in progress	374,954,471	129,868,927	<u>245,085,544</u>
Total			871,299,096
Payment requests in progress (Received as of June 30, 2017, but not yet paid)			
Less amount due in one year			<u>51,361,440</u>
Loans receivable, June 30, 2017 (Net of current maturities)			<u><u>\$ 819,937,656</u></u>

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3. Loans Receivable (Continued)

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	\$ 972,663,678		\$ 589,002,185
Projects in progress	338,196,613	151,711,168	<u>186,485,445</u>
Total			775,487,630
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>\$ 727,904,896</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>
2018	\$ 11,906,845	\$51,288,876	\$ 63,195,721
2019	10,974,260	51,215,940	62,190,200
2020	10,057,047	50,716,956	60,774,003
2021	9,171,626	48,852,336	58,023,963
2022	8,314,640	47,446,004	55,760,644
2023-2027	29,201,289	203,969,060	233,170,349
2028-2032	12,689,462	121,175,510	133,864,972
2033-2037	6,075,350	51,548,872	57,624,221
2038-2042	-	-	-
Total	<u>\$ 98,390,520</u>	<u>\$ 626,213,552</u>	<u>\$ 724,604,072</u>
Loans not yet in repayment		<u>\$ 245,085,544</u>	
Total loans receivable		<u>\$ 871,299,096</u>	

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 2 percent of total loans receivable. The combined outstanding balances of these loans at June 30, 2017 and 2016 represent approximately 45.8 and 48.98 percent of the total loans receivable and are as follows:

Borrower	2017		2016	
	Authorized	Outstanding	Authorized	Outstanding
	Loan	Loan	Loan	Loan
	Amount	Balance	Amount	Balance
City of Tacoma	\$ 75,652	\$ 46,350	\$ 75,652	\$ 50,124
King County Department of Natural Resources	290,743	192,721	252,872	166,028
Lake Stevens Sewer District	53,457	44,056	53,457	44,187
Lott Wastewater Alliance	76,206	55,202	74,148	58,629
Pierce County	60,556	60,859	60,556	60,881
Total	\$ 556,614	\$ 399,188	\$ 516,685	\$ 379,849

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.

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 non-operating revenue from the EPA and Washington State. Since 1989, EPA has awarded a total of approximately \$725,277,460 in grants to the State, of which approximately \$725,047,991 has been drawn for loans and administrative expenses. The State has provided a total of approximately \$131,404,350 in matching funds for that total drawn amount. The following summarizes the grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future loans:

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Year	Grant Award	Funds Drawn As of June 30, 2015 & Prior	Funds Drawn During Year Ended June 30, 2016	Funds Drawn As of June 30, 2016	Funds Drawn During Year Ended June 30, 2017	Funds Drawn As of June 30, 2017	Available for Loans as of June 30, 2017
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	24,578		24,578		24,578	-
2013	23,247	2143	21,104	23,247		23,247	-
2014	24,383	-	24,383	24,383		24,383	-
2015	24,258		17,434	17,434	6,824	24,258	
2016	23,235				23,006	23,006	229
Total	657,125	564,145	62,921	627,066	29,830	656,896	229
2008-ARRA	68,152	68,152		68,152		68,152	-
Total	\$725,277	\$632,297	\$62,921	\$695,218	\$29,830	\$725,048	\$229

4. Capital Contributions (Continued)

(Figures are in Thousands)

	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 Match Applied During Year Ended June 30, 2017	State Match Applied As of June 30, 2017
State Disbursed	\$ 112,832	\$ 12,588	\$ 125,404	\$ 6,000	\$ 131,404

The 2008-ARRA grant was fully expended during the year ending June 30, 2014. Of the \$68,151,900 expended, \$40,123,209 was used for principal forgiveness.

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:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Administrative fee collected	\$ 1,848,760	\$ 1,217,791
Interest on admin fee collected	<u>20,202</u>	<u>9,156</u>
	<u>\$ 1,868,962</u>	<u>\$ 1,226,947</u>
Operating expenses incurred	<u>\$ - 256,344</u>	<u>\$ 26,311</u>

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, 2017 and 2016, Comprehensive Annual Financial Reports.

6. Retirement Plans (Continued)

The Washington Legislature established the Public Employees' Retirement System (PERS) in 1947. PERS retirement benefit provisions are established in chapters 41.23 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes: Elected officials; state employees; employees of the Supreme Appeals, and Superior Courts (other than judges currently in the judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local government.

Ecology employees are only in one of the PERS or TRS (Teachers Retirement System). An employee can only be in the TRS if they transferred into Ecology as a participant in that plan. The DRS prepares a stand-alone financial report that is compliant with the requirements of Statement number 67 of the Governmental Accounting Standards Board. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at <http://www.drs.wa.gov/administration/annual-report/>.

PERS plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. PERS 1 and 2 plan members are vested after the completion of 5 years of eligible service. PERS 3 plan members are vested after 10 years of service or after 5 years of service, if 12 months of this service are earned after age 44.

For the year ended June 30, 2016, the investment rate of return on investments was 8.0 percent over the past three years and 7.5 percent over the past five years.

PERS plans provide retirement, disability, and death benefits to eligible members.

Contributions, annual pension costs and trend information attributable to employees of Ecology for the fiscal years ended June 30, 2016, 2015, are not determinable at the Account level. However, this information is reported at a statewide level in the State of Washington's Comprehensive Financial Report.

6. Retirement Plans (Continued)

Other Post Employment Benefits

Plan Description

The Public Employees' Benefits Board (PEBB) created within the Health Care Authority (HCA) is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life, and long-term disability.

The relationship between the PEBB other postemployment benefits (OPEB) plan and its member employers and their employees are retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs.

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical benefits.

Contributions are set each biennium as part of the budget process. In fiscal years 2017 the employer's contribution was \$888 and the employee's contribution ranged from \$25 to \$147 depending on plan. The benefits are funded on a pay-as-you-go basis.

Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective calculations.

More information on the State Retirement plan can be found in the State CAFR <http://www.ofm.wa.gov/cafr/2016/CAFR16.pdf>

Contributions, annual, other post employment benefit costs, and trend information attributable to employees of Ecology for the fiscal years ended June 30, 2016, 2015, are not determinable at the Account level. However, this information is reported at a statewide level in the State of Washington's Comprehensive Financial Report.

Information for fiscal year 2017 was not available at the time of this report.

