Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Department of Ecology

For the period July 1, 2020 through June 30, 2021

Published March 17, 2022

Report No. 1030043

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Office of the Washington State Auditor
Pat McCarthy

March 17, 2022

Laura Watson, Director
Department of Ecology
Olympia, Washington

Report on Financial Statements

Please find attached our report on the Department of Ecology – Clean Water State Revolving Fund's financial statements.

We are issuing this report in order to provide information on the Department's financial condition.

Sincerely,

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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*

Department of Ecology – Clean Water State Revolving Fund
July 1, 2020 through June 30, 2021

Laura Watson, Director
Department of Ecology
Olympia, 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 Department of Ecology – Clean Water State Revolving Fund, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 9, 2022.

The financial statements of the Department of Ecology – Clean Water State Revolving Fund, a fund of the Department of Ecology, which is an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the Clean Water State Revolving Fund. They do not purport to, and do not, present fairly the financial position of the Department of Ecology or the state of Washington as of June 30, 2021, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Department'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 the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department'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 Department'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department'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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

March 9, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Department of Ecology
July 1, 2020 through June 30, 2021

Laura Watson
Department of Ecology
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Department of Ecology – Clean Water State Revolving Fund, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed on page 9.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 Department'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 Department'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 financial position of the Department of Ecology – Clean Water State Revolving Fund, as of June 30, 2021, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of the Department of Ecology – Clean Water State Revolving Fund, a fund of the Department of Ecology, which is an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the Clean Water State Revolving Fund. They do not purport to, and do not, present fairly the financial position of the Department of Ecology or the state of Washington as of June 30, 2021, the changes in its financial position, or where applicable, its cash flows for the year 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 and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department of Ecology – Clean Water State Revolving Fund's basic financial statements as a whole. The Comparative Activity of Net Position, Comparative Activity of Revenues, Expenses, and Changes in Net Position, Comparative Activity of Cash Flows and Disbursements and Accruals are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, and the procedures performed as described above, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2022 on our consideration of the Department'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 results 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 Department's internal control over financial reporting and compliance.

Pat McCarthy, State Auditor

Olympia, WA

March 9, 2022

FINANCIAL SECTION

Department of Ecology
July 1, 2020 through June 30, 2021

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2021
Statement of Revenues, Expenses and Changes in Net Position – 2021
Statement of Cash Flows – 2021
Notes to Financial Statements – 2021

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of CWSRF's Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2021
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2021
Schedule of Changes in Total OPEB Liability and Related Ratios – 2021

SUPPLEMENTARY AND OTHER INFORMATION

Comparative Activity of Net Position – 2021
Comparative Activity of Revenues, Expenses, and Changes in Net Position – 2021
Comparative Activity of Cash Flows – 2021
Disbursements and Accruals – 2021

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) and Water Pollution Control Revolving Admin (WPCRA) for the years ended June 30, 2021. These two funds are reported together and are referred to as CWSRF Program. 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 provides financial assistance in the form of low-interest loans to local governments and tribes for water quality projects of high priority. Ecology receives an annual grant from United States of America Environmental Protection Agency (EPA). The federal fiscal year (FFY) 2020 grant award was $27,635,000. Ecology matches 20 percent of the grant award with state funds, of $5,527,000. The funding levels for the CWSRF program 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) 2021 was $186M as published in Ecology's Intended Use Plan. CWSRF loan interest rates are between zero and two percent. This account is for loan activity.

In 2013, the Water Pollution Control Revolving Admin (WPCRA) account was established. This account was funded from an administrative charge of 1% charged on the declining principal of loans that went into repayment after the new rule was effective December 21, 2013. Ecology reduced the rate to 0.3 percent on FY21 and future loans. Once loans charged 1% are repaid, projection shows that 0.3 percent bring in revenue closer to the amount needed for administrative costs. This account is for program administrative activities to manage the CWSRF.

Using this Annual Financial Report

The financial statements included in this annual financial report are those of the combined CWSRF and WPCRA. The basic financial statements of the CWSRF and WPCRA represent the financial position, changes in financial position, and cash flows as of the years ended June 30, 2021 of only that portion of the financial reporting entity of the Department of Ecology that is attributable to the transactions of the CWSRF and WPCRA. They do not purport to present the financial position of the Department of Ecology or the State of Washington (State) as of June 30, 2021 and the change in the net positions and their cash flows for the year ended.

Overview of Financial Statements

The financial statements of the CWSRF and WPCRA are presented as a special purpose government engaged only in the type activities – providing loans to other governmental entities. The statements provide both short-term and long-term information about the CWSRF's and WPCRA's financial position, which assists the reader in assessing the CWSRF's and WPCRA'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 *Statement of Net Position* present information on all of the CWSRF's and WPCRA's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference 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 and WPCRA are improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Position* present information showing how CWSRF's and WPCRA'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 *Statement of Cash Flows* report the CWSRF's and WPCRA'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.

Net Position

Statement of Net Position

	June 30,2021	June 30,2020
ASSETS		
Cash and cash equivalents	319,090,460	235,095,535
Loans receivable	898,818,210	929,334,121
Other assets	142,364	275,228
Total assets	**1,218,051,034**	**1,164,704,884**
DEFERRED OUTFLOWS Of RESOURCES	**802,485**	**589,640**
LIABILITIES		
Current liabilities	436,139	167,038
Noncurrent liabilities	3,246,813	2,078,019
Total liabilities	**3,682,952**	**2,245,057**
DEFERRED INFLOWS OF RESOURCES	**862,203**	**667,172**
NET POSITION		
Restricted	**1,214,308,364**	**1,162,382,296**

The net position increased from $1,162,382,296 as of June 30, 2020 to $1,214,308,364 as of June 30, 2021. This increase is mostly due to an increase in repayments and decrease of loan disbursements. The net position is comprised solely of resources restricted for the CWSRF program. The CWSRF program has no capital assets and no related debt.

During SFY21 the CWSRF total activity cash increased by $83,994,925, as seen on the Statement of Net Position. The increase in cash is a result of increased repayments and decrease of loan disbursements. The State Treasurer's office credited $2,149,313 in interest to the CWSRF account. The EPA capitalization grant funds provided $27,936,476, this includes $304,476 unspent administration from the 2019 SRF grant, and the State of Washington provided $5,474,804 in matching funds.

The change in loans receivable is caused by more loans being in repayment. Ecology disbursed $99,480,622 in loans during the year. Ecology received $127,867,423 in principal payments from borrowers and applied $3,349,486 in principal forgiveness during the year. $45,0077.56 of this principal forgiveness was originally from a standard SRF loan EL200403 and subsequently transferred to principal forgiveness loan #EF220060, based on Ecology's hardship eligibility determination. Since these disbursements were made in SFY 2021, they are being recognized as principal forgiveness expenditure for this year. Ecology paid $1,874,403 in administrative expenses to employees, vendors, and for indirect costs.

Changes in Net Position

Changes in Net Position

	June 30, 2021	June 30, 2020
REVENUES		
Program revenues:		
Loan interest income	15,961,182	14,784,016
Loan Service Fee	5,628,182	5,459,740
General revenues:		
Investment income	2,149,313	3,373,834
Total revenues	**23,738,677**	**23,617,590**
EXPENSES		
Program expenses:		
Administrative expenses	1,874,403	1,866,375
Principal forgiveness	3,349,486	2,479,672
Total expenses	**5,223,889**	**4,346,047**
Income before contributions	**18,514,788**	**19,271,543**
Capital contributions:		
EPA capitalization grant	27,936,476	27,329,524
State and other contributions	5,474,804	5,526,200
Total capital contributions	**33,411,280**	**32,855,724**
Change in net position	**51,926,068**	**52,127,267**

Net position - beginning of year	1,162,382,296	1,110,255,029
Net position - end of year	**1,214,308,364**	**1,162,382,296**

Income for Fiscal Year 2021

Income before contributions of the CWSRF for SFY21 was $18,514,788, which includes $2,149,313 of investment income. 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, the loan service fee, 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 2021, the CWSRF earned $27,936,476 in federal funds and $5,474,804 in state matching funds.

State Matching Funds

For SFY 2021, 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 cash match of $5.5 million.

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. SFY21 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 SFY21 (FFY20) the federal capitalization grant was approximately $33.4 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. For questions, concerning the information provided in this report or requests for additional information should contact Jeff Nejedly, Financial Management Section Manager, Department of Ecology, Water Quality Program, at jeffrey.nejedly@ecy.wa.gov or (360) 407-6572.

WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Statement of Net Position
for the year ended June 30, 2021

	2021
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
ASSETS	
Current Assets:	
Cash and cash equivalents	$319,090,460
Receivables:	
Due from other state funds	142,364
Loans Receivable	57,913,812
Total current assets	**377,146,636**
Noncurrent Assets:	
Loans Receivable	840,904,398
Total Noncurrent assets	**840,904,398**
Total Assets	**1,218,051,034**
DEFERRED OUTFLOWS OF RESOURCES	
Resources for Pensions	351,903
Resources for OPEB	450,582
Total Deferred Outflows of Resources	**802,485**
Total Assets and Deferred Outflows of Resources	**1,218,853,519**
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued expenses	234,710
Due to other state funds	164,300
Due to Federal Government	28,158
Total OPEB Liability	8,971
Total current liabilities	**436,139**
Noncurrent Liabilities:	
Unearned Revenue	2,651,517
Net Pension Liability	94,268
Total OPEB Liability	501,028
Total noncurrent liabilities	**3,246,813**
Total Liabilities	**3,682,952**
DEFERRED INFLOWS OF RESOURCES	
Resources on Pensions	331,496
Resources on OPEB	530,707
Total Deferred Inflows of Resources	**862,203**
NET POSITION	
Restricted	1,214,308,364
Total Net Position	**1,214,308,364**
Total Liabilities, Deferred Inflows of Resources, and Net Position	**1,218,853,519**

The accompanying notes are an integral part of the financial statement

WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Statement of Revenues, Expenses, and Changes in Net Position
for the year ended June 30, 2021

	2021
OPERATING REVENUE	
Loan interest income	15,961,182
Loan service fee	5,628,182
Total operating revenue	**21,589,364**
OPERATING EXPENSES	
Personnel services	1,431,738
Other expenses	442,666
Loan Principal Forgiveness expense	3,349,486
Total operating expenses	**5,223,890**
NET OPERATING INCOME (LOSS)	**16,365,474**
NONOPERATING REVENUE (EXPENSE)	
Net investment income	2,149,313
Total nonoperating revenue (expense)	**2,149,313**
INCOME BEFORE CONTRIBUTIONS	**18,514,788**
CONTRIBUTIONS	
EPA capitalization grant	27,936,476
State match revenue	5,474,804
Total contributions	**33,411,280**
CHANGE IN NET POSITION	**51,926,068**
NET POSITION - BEGINNING OF YEAR	1,162,382,296
NET POSITION - END OF YEAR	**1,214,308,364**

The accompanying notes are an integral part of the financial statements

WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Statement of Cash Flows for the year ended June 30, 2021

	2021
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash paid to employees and vendors	($1,541,833)
Cash Received from Interest on Loans	15,961,182
Loan Service Fee	5,628,182
Loans Disbursed	(99,480,622)
Principal received on Loans Receivable	127,867,423
Net Cash flows provided (required) by operating activities	**48,434,332**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Funds received from EPA	27,936,476
Funds received from the state of Washington	5,474,804
Net Cash flows provided (Required) by noncapital operating activities	**33,411,280**
CASH FLOWS FROM INVESTING ACTIVITIES	
Net investment income received	2,149,313
Net Cash Provided (Required) by Investing Activities	**2,149,313**
NET INCREASE IN CASH AND CASH EQUIVALENTS	83,994,925
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	235,095,535
CASH AND CASH EQUIVALENTS - END OF YEAR	**319,090,460**
Reconciliation of operating income to net cash required by operating activities	
Income from Operations	16,365,475
Adjustments to Reconcile Income from Operations	
to Net Cash Required by Operating Activities:	
Changes In Assets: Decrease (Increase)	
Loans Receivable	30,515,911
Due from other state Funds	128,274
Due from Fed Government	4,591
Change in Deferred Outflows of Resources: (Increase) Decrease	(212,845)
Changes In Liabilities: Increase (Decrease)	
Accounts Payable and Accrued Expenses	183,735
Due to other state funds	56,967
Due to Federal Government	28,158
Pension & OPEB Liabilities	(51,341)
Unavailable Revenue	1,220,376
Change in Deferred Inflows of Resources: Decrease (Increase)	195,031
Net Cash Provided (Required) by Operating Activities	**$48,434,332**

The accompanying notes are an integral part of the financial statements

Notes to the Financial Statements

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-Loan Activities) 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.

The Water Pollution Control Revolving Admin (WPCRA-Program Activities) account was established in 2013. This account was funded from an administrative charge of 1% charged on the declining principal of loans that went into repayment after the new rule was effective December 21, 2013. Ecology reduced the rate to 0.3 percent on FY21 and future loans. Once loans charged 1% are repaid, projection shows that 0.3 percent bring in revenue closer to the amount needed for administrative costs. This account is for program administrative activities to manage the CWSRF.

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 30 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 $831,511,460 in capitalization grants from 1989 through June 30, 2021. The State match share for that awarded amount is $152,697,055.

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.

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 funds 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.

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 disbursed $3,349,486 in forgivable principal loans during the years ended June 30, 2021, which is recognized upon loan closure when final amounts of the project are determined.

Operating Revenues and Expenses

The Account distinguishes between operating revenues and expenses and non-operating 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 non-operating 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.

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, 2021, total Treasurer's invested balance of the Treasury/Trust Fund Portfolio was $13.8 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 Annual Comprehensive Financial Report of the State of Washington.

	Carrying Amount	Market Value
Treasury/Trust Portfolio June 30, 2021	$308,354,208	$308,354,208

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:

	2021
CWSRF Securities on loan:	
Fair Value	$15,438,135
*Cash Collateral held by CWSRF:	
Fair Value	
Reported Value	
OST Securities on loan:	
Fair Value	$696,361,487
Cash Collateral held by OST:	
Fair Value	3,136,884,085
Reported Value	$3,136,884,085

Revised Code of Washington (RCW) 43.84.080, contract dated September 1, 2017 between the OST and Northern Trust Company that runs through August 31, 2021. There were no violations of legal or contractual provisions.

The OST lending agent lends US Treasury securities, US Agency securities, and supranational 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 and deposit accounts 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, 2021 investment portfolio activity for the treasurer and treasurer trust account which include SRF fund securities on loan totaled $308,354,208 book value and $696,361,487 fair value.

On June 30, 2021, 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 loans be made available by the lending agent for next day liquidity at the option of the OST. During fiscal year 2021, 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.

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 2021 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 30 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, 2021, the Account had total new binding commitments of $176,030,545, 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 $831,511,460 as of June 30, 2020. Loan obligations as of June 30, 2021, which include state matching requirements and principal and interest collected from repayment, were $2,213,409,921.

Loans by Category

Fiscal Year 2021	Loans Authorized	Remaining Commitment	Outstanding Balance
Completed Projects	1,384,947,795.23	635,854,599.01	749,093,196.22
Projects in Progress	473,891,106.75	324,166,092.90	149,725,013.85
Total			898,818,210.07
Payment request in progress			0
(Received as of June 30,2021, but not yet paid)			
Less amount due in one year			57,913,812.05
Loans Receivable, June 30, 2021			840,904,398.02
(Net of current maturities)			

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

Year Ending June 30	Interest	Principal	Total
2022	11,811,920.38	55,934,840.89	67,746,761.27
2023	12,382,152.62	58,757,505.16	71,139,657.78
2024	13,400,694.66	61,407,582.13	74,808,276.79
2025	13,808,612.47	60,342,327.05	74,150,939.52
2026	13,327,269.45	60,378,890.90	73,706,160.35
2027-2031	55,117,887.43	259,183,790.11	314,301,677.54
2032-2036	25,353,928.91	166,605,510.95	191,959,439.86
2037-2041	13,934,340.39	129,653,558.62	143,587,899.01
2042-2054	8,847,693.63	67,561,451.32	76,409,144.95
Total	167,984,499.94	919,825,457.13	1,087,809,957.07
*Less adjustment for static report		(170,732,260.91)	
Loans not yet in repayment		149,725,013.85	
Total loans receivable		898,818,210.07	

*Report does not account for extra payments, early payments, etc.

Loans to Major Local Entities

As of June 30, 2021, 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, 2021 is $522,195 thousand and represents approximately 58.0 percent of the total loans receivable of $898,818 thousand and are as follows:

2021

Borrower	Authorized Loan Amount	Outstanding Loan Balance
King County Dept of Natural Resources	417,230	230,217
City of Oak Harbor	110,521	94,005
Pierce County	60,500	54,244
City of Seattle	163,743	52,153
City of Spokane	106,087	91,576
Total	**858,081**	**522,195**

Dollars are expressed in thousands

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.

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 non-operating revenue from the EPA and Washington State. Since 1989, EPA has awarded a total of approximately $831,511,460 in grants to the State, of which approximately $831,511,460 has been drawn for loans and administrative expenses. The State has provided a total of approximately $152,673,027 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: (Figures are expressed in thousands)

Year	Grant Award	Funds Drawn as of June 30, 2020 & Prior	Funds Drawn during year Ended June 30, 2021	Funds Drawn as of June 30, 2021	Loans or Admin as of June 30, 2021
1989-2009	476,311	476,311		476,311	
2010	35,433	35,433		35,433	
2011	25,680	25,680		25,680	
2012	24,578	24,578		24,578	
2013	23,247	23,247		23,247	
2014	24,383	24,383		24,383	
2015	24,258	24,258		24,258	
2016	23,235	23,235		23,235	
2017	23,056	23,056		23,056	
2018	27,912	27,912		27,912	
2019	27,631	27,330	301	27,631	
2020	27,635		27,635	27,635	
Total	763,359	735,423	27,936	763,359	0
2008-ARRA	68,152	68,152	0	68,152	0
Total	$831,511	$803,575	$27,936	$831,511	$0

	State Match applied as of June 30, 2020 & Prior	State Match applied during year ended June 30, 2021	State Match applied as of June 30, 2021
State Disbursed	$147,146	$5,527	$152,673
		Drawn	State Match

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.

Administrative Fund

In July 2013, legislation in the state of Washington became effective which allows CWSRF program to collect a service charge on loans which will be used for administrative costs. This is the Water Pollution Control Revolving Admin (WPCRA) account. In FY21, $18,000 was transferred out to help pay for the state's information technology systems. 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, 2021
Administrative fee collected	5,628,182
Interest on admin fee collected	68,951
Revenue transferred out	(18,000)
	$5,679,134
Operating expenses incurred	($1,869,725)

Note 5: Contingencies

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, 2021 Annual Comprehensive Financial Reports.

Note 6: Retirement Plans

Clean Water State Revolving Program employees participate in the Washington State Public Employees' Retirement System (PERS) administered by the Department of Retirement Systems (DRS).

The table below shows the net pension liability, deferred outflows of resources, and deferred inflows of resources reported on June 30, 2021, for the Clean Water State Revolving Program's proportionate share of the liabilities for the PERS Plan 2/3. Additional detail is provided later in this note.

Clean Water State Revolving Program Proportionate Share

June 30, 2021

	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 2/3	94,268	351,903	331,496

DRS prepares a stand-alone financial report of the retirement plans that is compliant with the requirements of GASB Statement No. 67. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, Washington 98504-8380 or online at DRS Annual Financial Reports.

Note 6.A: Public Employees' Retirement System

Plan Descriptions

The Legislature established the PERS in 1947. PERS retirement benefit provisions are established in chapters 41.34 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 Court, Court of Appeals, and Superior Courts (other than judges currently in a 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 governments.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans, and Plan 3 is a combination defined benefit/defined contribution plan. The defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by February 28, 2002, for state and higher education employees, are Plan 2 members, unless they exercised an option to transfer their membership to Plan 3.

PERS participants joining the system on or after March 1, 2002, have the irrevocable option of choosing membership in either Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to make a selection within 90 days default to Plan 3.

Benefits Provided

PERS plans provide retirement, disability, and death benefits to eligible members. The monthly retirement benefit is two percent of the average final compensation (AFC) per year of service for Plan 1, capped at 60% and Plan 2, no cap, and one percent of the AFC per year of service for the defined benefit portion of Plan 3, no cap.

PERS Plan 1 and Plan 2 members are vested after the completion of five years of eligible service. Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44.

Contributions

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contributions rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Contribution requirements are established and amended by state statute.

All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The employer contribution rate for the Clean Water State Revolving Program at the close of fiscal year 2021 for each of Plans 1, 2, and 3 was 12.97 percent.

The member contribution rate for Plan 1 is established by statute at six percent for employees of state agencies. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rate for Plan 2 state agency employees at June 30, 2021, was 7.90 percent of the employee's annual covered salary. Under Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Director of the DRS sets Plan 3 employee contribution rate options. Members can choose from six rate options ranging from 5 to 15 percent. Two of the options are graduated rates dependent on the employee's age.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2019, with the results rolled forward to June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50%
Investment rate of return	7.40%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary (OSA) applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of the 2013-2018 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets in which the WSIB currently invests:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The OSA selected a 7.40 percent long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns provided by WSIB. Refer to the 2019 Report on Financial Condition and Economic Experience Study on the OSA website for additional background on how this assumption was selected.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	20%	4.4%
Tangible assets	7%	7.3%
Real estate	18%	8.0%
Public equity	32%	8.5%
Private equity	23%	11.5%
Total	100%	

The inflation component used to create the above table is 2.20 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount Rate

The discount rate of 7.40 percent was also used for the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members.

Consistent with current law, the completed asset sufficiency test included an assumed 7.00 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.00 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually-required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.00 percent on pension plan investments was applied to determine the total pension liability.

The following presents the net pension liability/(asset) of the employers, calculated using the discount rate of 7.00 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate.

Employers' Proportionate Share of Net Pension Liability/(Asset)

	PERS 2/3
1% Decrease	586,558
Current Discount Rate	94,268
1% Increase	(311,134)

Net Pension Liability

At June 30, 2021, the Clean Water State Revolving Program reported a liability of $94,268 for its proportionate share of the collective net pension liability for PERS 2/3. The Clean Water State Revolving Program's proportion for PERS 2/3 was .014 percent, and decrease of .016 percent since the prior reporting period, the proportions are based on the Clean Water State Revolving Program's contributions to the pension plan relative to the contributions of all participating employers.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended June 30, 2021, a pension expense of $65,389 was recognized for PERS 2/3.

At June 30, 2020, PERS 2/3 reported deferred outflows and inflows of resources related to pensions from the following sources:

Deferred Outflows and Inflows of Resources

June 30, 2021

PERS 2/3	Outflows	Inflows
Difference between expected and actual experience	33,746	11,814
Changes of assumptions	1,343	64,393
Net difference between projected and actual earnings on pension plan investments		4,787
Changes in proportionate share of contributions	245,914	250,502
Contributions subsequent to measurement date	70,900	
Total	**$351,903**	**$331,496**

Pension contributions made subsequent to the measurement date for PERS 2/3, was reported as deferred outflows of resources at June 30, 2021, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Net Deferred Outflows and (Inflows) of Resources
Fiscal Year ended June 30, 2021

PERS 2/3	
2022	(28,580)
2023	1,185
2024	12,210
2025	(5,941)
2026	(4,048)
Thereafter	(25,319)

Note 7: Other Postemployment Benefits

The Clean Water State Revolving Program is administered by Department of Ecology, an agency of the state of Washington and part of the primary government. Employees of the Clean Water State Revolving Program are eligible to participate in the state of Washington's defined benefit Other Postemployment Benefit (OPEB) plan, a single employer defined benefit plan, as administered by the state through the Washington State Health Care Authority (HCA).

Plan Description and Funding Policy

The state implemented Statement No. 75 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* for fiscal year 2018 financial reporting.

Per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the 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. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan in effect at the time of each valuation. 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.

The PEBB OPEB plan is funded on a pay-as-you-go basis and is reported in governmental funds using the modified accrual basis and the current financial resources measurement focus. For all proprietary and fiduciary funds, the OPEB plan is reported using the economic resources measurement focus and the accrual basis of accounting. It has no assets and does not issue a publicly available financial report.

The PEBB retiree OPEB plan is available to employees who elect at the time they retire to continue coverage and pay the administratively established premiums under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: Public Employees' Retirement System, Public Safety Employees' Retirement System, Teachers' Retirement System, School Employees' Retirement System, Washington State Patrol Retirement System, Higher Education, Judicial, and LEOFF 2. However, not all employees who participate in these plans offer PEBB to retirees.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claim costs and the premium. In calendar year 2019, the average weighted implicit subsidy was valued at $367 per member per month, and in calendar year 2020, the average weighted implicit subsidy is projected to be $372 per adult unit per month. In calendar year 2021, the average weighted implicit subsidy is projected to be $384 per adult unit per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In calendar year 2019, the explicit subsidy was $168 per member unit per month increasing to $183 per member per month in 2020. The amount remains unchanged for calendar year 2021. It is projected to remain at $183 per member per month in 2022.

Administrative costs, as well as implicit and explicit subsidies, are funded by required contributions (RCW 41.05.050) from participating employers. The subsidies provide monetary assistance for medical benefits.

Contributions are set each biennium as part of the budget process. The benefits are funded on a pay-as-you-go basis.

For information on the results of the most recent actuarial valuation for the OPEB plan, refer to the Washington State Legislature OPEB valuations.

Total OPEB Liability

As of June 30, 2021, the Clean Water State Revolving Program reported a total OPEB liability of $509,999.

Changes in Total OPEB Liability

The following table shows changes in the Clean Water State Revolving Program's total OPEB liability.

Changes in Total OPEB Liability
for Year Ending June 30, 2021

	Ecology
Total OPEB Liability-Beginning	506,282
Changes for the year:	
Service cost	21,163
Interest cost	17,704
Differences Between Expected and Actual Experience	(2,713)
Changes of assumptions*	11,476
Benefit payments	(8,429)
Changes in proportionate share	(17,450)
Other	(18,034)
Net Change in Total OPEB Liability	3,717
Total OPEB Liability-Ending	**509,999**

*The recognition period for these changes is nine years. This is equal to the average.

Actuarial Assumptions

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, the historical pattern of sharing of benefit costs between the employer provided at the time of each valuation, and the historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) 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, consistent with the long-term perspective of the calculations.

The total OPEB liability was determined using the following actuarial assumptions, applied to all period included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	3.50%
Healthcare trend rates	
Trend rate assumptions vary slightly by medical plan. Initial trend rate ranges from 2-11%, reaching an ultimate rate of approximately 4.3% in 2075	
Post-retirement participation	65.0%
Percentage with spouse coverage	45.0%

In projecting the growth of the explicit subsidy, after 2022 when the cap is $183, it is assumed to grow at the healthcare trend rate. The Legislature determines the value of cap and no future increases are guaranteed, however based on historical growth patterns, future increases to the cap are assumed.

Sensitivity of the Healthcare Cost Trend Rate

	Ecology
1% Decrease	617,484
Current Discount Rate	509,999
1% Increase	426,308

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Most demographic actuarial assumptions, including mortality, and when members are expected to terminate and retire, were based on the results of the 2007-2012 Experience Study Report. The post-retirement participation percentage and percentage with spouse coverage were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2017 Economic Experience Study.

Actuarial Assumptions

The total OPEB liability was determined using the following methodologies:

Actuarial Valuation Date	6/30/2020
Actuarial Measurement Date	6/30/2020
Actuarial Cost Method	Entry Age
Amortization Method	9 years
Asset Valuation Method	N/A – No Assets

Discount Rate

Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.5 percent for the June 30, 2019 measurement date and 2.21 percent for the June 30, 2020 measurement date.

The following represents the Clean Water State Revolving Program's proportionate share of the total OPEB liability, calculated using the discount rate of 2.21 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.21 percent) or one percentage point higher (3.21 percent) than the current rate.

Sensitivity of the Discount Rate
OPEB Liability

1% Decrease	415,516
Current Discount Rate	509,999
1% Increase	636,566

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

The following table shows components of the Clean Water State Revolving Program's allocated annual OPEB costs for fiscal year 2021. The Clean Water State Revolving Program's will recognize OPEB expense of $(3,766).

Proportionate Share of OPEB Expense
Ending June 30, 2021

	Ecology
Current year allocated Costs:	
Service cost	21,163
Interest cost	17,704
Amortization of Differences between Expected and Actual Experience	1,563
Amortization of changes of assumptions	(16,626)
Amortization of changes in proportion	(567)
Transactions subsequent to the measurement date	(8,971)
Other Changes in Fiduciary Net Position	(18,032)
Total OPEB Expense	**(3,766)**

*The changes in proportionate share was not included in the OPEB expense amount booked as it was not completed until after the Office of the State Actuary's (OSA) valuation.

For fiscal year 2021 Ecology reported its proportionate share of the state reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows and Inflows of Resources
June 30, 2021

OPEB	Inflows	Outflows
Difference between expected and actual experience	2,411	11,189
Changes of assumptions	120,279	35,069
Transactions subsequent to the measurement date		8,971
Changes in Proportion	408,017	395,353
Total	530,707	450,582

Amounts reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of total OPEB liability in the year ended June 30, 2021.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in future OPEB expense in the fiscal years ended June 30 as follows:

Net Deferred Outflows and (Inflows) of Resources
Subsequent Years

	Ecology
2022	(15,630)
2023	(15,630)
2024	(15,630)
2025	(15,629)
2026	(24,295)
Thereafter	(2,283)

A complete description of the funded status and actuarial assumptions of the state of Washington's OPEB plan is included in the Annual Comprehensive Financial Report for the state of Washington. A copy of this report may be obtained by contacting the Statewide Accounting Division of the Office of Financial Management at P.O. Box 43127, Olympia, Washington 98504-3127, or online at Office of Financial Management Annual Comprehensive Financial Report.

RSI
Required Supplementary Information

PENSION PLAN INFORMATION
Cost Sharing Employer Plans

Schedule of the CWSRF's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 2/3
Measurement Date of June 30 *

	2020	2019	2018	2017
SRF's PERS Plan 2/3 employers' proportion of the net pension liability/(asset)	0.01%	0.03%	0.02%	0.03%
SRF's PERS Plan 2/3 employers' proportionate share of the net pension liability/(asset)	$402,396	$485,727	$472,368	$514,378
SRF's PERS Plan 2/3 covered payroll	$860,110	$1,664,884	$852,717	$1,453,653
SRF's PERS Plan 2/3 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered payroll	46.78%	29.17%	16.43%	35.39%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	97.22%	97.77%	95.77%	90.97%

* This schedule is to be built prospectively until it contains ten years of data.

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 2/3
Fiscal Year Ended June 30*

	2021	2020	2019	2018
Contractually Required Contributions	$ 70,739	$ 141,857	$67,154	$ 114,728
Contributions in relation to the contractually required contributions	70,739	141,857	67,154	114,728
Contribution deficiency (excess)	$ 0	$ 0	$ 0	$ 0
Covered payroll	$ 896,366	$ 1,796,898	$890,443	$ 1,544,694
Contributions as a percentage of covered payroll	7.89%	7.89%	7.54%	7.43%

* This schedule is to be built prospectively until it contains ten years of data.

WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Required Supplementary Information for fiscal year 2021

Schedule of the CWSRF's Proportionate Share of the Net Pension Liability

Public Employees' Retirement System (PERS) Plan 1

Measurement Date of June 30 *

(expressed in thousands)

	2020
SRF's PERS Plan 1 employers' proportion of the net pension liability/(asset)	0.01%
SRF's PERS Plan 1 employers' proportionate share of the net pension liability/(asset)	402,396
SRF's PERS Plan 1 covered payroll	7,982
SRF's PERS Plan 2/3 covered payroll	796,920
Covered Payroll	804,901
SRF's PERS Plan 1 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered payroll	49.99%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	68.64%

* This schedule is to be built prospectively until it contains ten years of data.

Schedule of Contributions

Public Employees' Retirement System (PERS) Plan 1

Fiscal Year Ended June 30*

Applied Ecology FY 2021 Rate

	2021
Contractually Required Contributions	47,054
Employer contributions related to covered payroll of employees participating in PERS Plan 1	665
Employer UAAL Contributions related to covered payroll of employees participating in PERS Plan 2/3	46,390
Contributions in relation to the contractually required contributions	47,054
Contribution deficiency (excess)	0
Covered payroll of employees participating in PERS Plan 1	5,117
Covered payroll of employees participating in PERS Plan 2/3	896,366
Covered Payroll	901,483
Contributions as a percentage of covered payroll	5.22%

* This schedule is to be built prospectively until it contains ten years of data.

PENSION PLAN INFORMATION
Notes to Required Supplementary Information

Methods and assumptions used in calculations of Actuarially Determined Contributions (ADC) for PERS, TRS, LEOFF, and WSPRS.
The Office of the State Actuary (OSA) calculates the ADC based on the results of an actuarial valuation consistent with the state's funding policy defined under chapter 41.45 of the Revised Code of Washington (RCW). Consistent with the state's contribution rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2017, valuation date, completed in the fall of 2018, determined the ADC for the period beginning July 1, 2019, and ending June 30, 2021.

Methods and assumptions used in calculations of the ADC for JRS and Judges.
The OSA calculates the ADC based on the results of an actuarial valuation, and sets the ADC equal to the expected benefit payments from the plan. Consistent with the state's funding policy defined under RCWs 2.10.90 and 2.12.60, the Legislature makes biennial appropriations in order to ensure the fund is solvent to make the necessary benefit payments.

OSA calculates the ADC consistent with the methods described above. Adopted contribution rates may be different pending the actions of the governing bodies.

OTHER POSTEMPLOYMENT BENEFITS INFORMATION

Schedule of Changes in Total OPEB Liability and Related Ratios
As of the Measurement Date June 30*

Total OPEB Liability	2020	2019	2018	2017
Service cost	$ 21,163	$ 20,500	$ 29,533	$ 33,611
Interest	17,704	17,782	20,304	15,743
Changes in benefit terms	0	0	0	0
Difference between expected and actual experience	(2,713)	0	18,533	0
Changes in assumptions	11,476	33,115	(129,292)	(76,797)
Benefit payments	(8,429)	(8,134)	(8,575)	(8,024)
Other	(35,484)	(29,349)	46,089	2,949
Net Changes in Total OPEB Liability	3,717	33,914	(23,408)	(32,518
Total OPEB Liability - Beginning	506,282	472,368	495,775	528,293
Total OPEB Liability - Ending	$ 509,999	506,282	472,367	495,775
Covered Payroll	$ 332,674	374,396	349,315	670,419
Total OPEB liability as a percentage of covered payroll	65.23%	66.55%	60.53%	73.95%

*The recognition period for these changes is ten years. This is equal to the average expected remaining service live of all active and inactive members.

Note: Figures may not total due to rounding

Notes to Required Supplementary Information

The Public Employee's Benefits Board OPEB plan does not have assets in trusts or equivalent arrangements and is funded on a pay-as-you-go basis. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, health care trend rates, salary projections, and participation percentages.

SI
Supplementary Information

Comparative Activity of Net Position as of June 30, 2021

	2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
Current Assets:		
Cash and cash equivalents	$319,090,460	$235,095,535
Receivables:		
Due from federal government		4,591
Due from other State funds	142,364	270,637
Loans Receivable	57,913,812	70,060,871
Total current assets	**377,146,636**	**305,431,634**
Noncurrent Assets:		
Loans Receivable	840,904,398	859,273,250
Total other assets	**840,904,398**	**859,273,250**
Total Assets	**1,218,051,034**	**1,164,704,884**
DEFERRED OUTFLOWS OF RESOURCES		
Resources for Pensions	351,903	495,804
Resources for OPEB	450,582	93,836
Total Deferred Outflows of Resources	**802,485**	**589,640**
Total Assets and Deferred Outflows of Resources	**1,218,853,519**	**1,165,294,524**
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	234,710	50,974
Due to other state funds	164,300	107,333
Due to Federal Government	28,158	
Total OPEB Liability	8,971	8,730
Total current liabilities	**436,139**	**167,037**
Noncurrent Liabilities:		
Unearned Revenue	2,651,517	1,431,141
Net Pension Liability	94,268	149,326
Total OPEB Liability	501,028	497,552
Total noncurrent liabilities	**3,246,813**	**2,078,019**
Total Liabilities	**3,682,952**	**2,245,056**
DEFERRED INFLOWS OF RESOURCES		
Resources on Pensions	331,496	485,727
Resources on OPEB	530,707	181,445
Total Deferred Inflows of Resources	**862,203**	**667,172**
NET POSITION		
Restricted	1,214,308,364	1,161,537,178
Restricted for Pension and OPEB	-	845,118
Total Net Position	**1,214,308,364**	**1,162,382,296**
Total Liabilities, Deferred Inflows of Resources, and Net Position	**1,218,853,519**	**1,165,294,524**

WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Supplementary Information for fiscal year 2021

Comparative Activity of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2021

	2021	2020
OPERATING REVENUE		
Loan interest income	15,961,182	14,784,016
Loan service fee	5,628,182	5,459,740
Total operating revenue	**21,589,364**	**20,243,757**
OPERATING EXPENSES		
Personnel services	1,431,738	1,321,177
Other expenses	442,666	545,198
Loan Principal Forgiveness expense	3,349,486	2,479,672
Total operating expenses	**5,223,889**	**4,346,047**
NET OPERATING INCOME (LOSS)	**16,365,475**	**15,897,709**
NONOPERATING REVENUE (EXPENSE)		
Net investment income	2,149,313	3,373,834
Total nonoperating revenue (expense)	**2,149,313**	**3,373,834**
INCOME BEFORE CONTRIBUTIONS	**18,514,788**	**19,271,543**
CONTRIBUTIONS		
EPA capitalization grant	27,936,476	27,329,524
State match revenue	5,474,804	5,526,200
Total contributions	**33,411,280**	**32,855,724**
CHANGE IN NET POSITION	**51,926,068**	**52,127,267**
Beginning Balance per AFRS		1,110,255,029
NET POSITION - BEGINNING OF YEAR	1,162,382,296	1,110,255,030
Prior Period Adjustment		(1)
NET POSITION-Beginning of year, as restated		1,110,255,029
NET POSITION - END OF YEAR	**1,214,308,364**	**1,162,382,296**

WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Supplementary Information for fiscal year 2021

Comparative Activity of Cash Flows for Year Ending June 30, 2021

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash paid to employees and vendors	($1,541,833)	($2,118,407)
Cash Received from Interest on Loans	15,961,182	14,856,582
Loan Service Fee	5,628,182	5,459,740
Loans Disbursed	(99,480,622)	(55,534,137)
Principal received on Loans Receivable	127,867,423	68,331,381
Net Cash flows provided (required) by operating activities	**48,434,323**	**30,995,159**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funds received from EPA	27,936,476	27,329,524
Funds received from the state of Washington	5,474,804	5,526,200
Net Cash flows provided (Required) by noncapital operating activities	**33,411,280**	**32,855,724**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment income received	2,149,313	3,373,834
Net Cash Provided (Required) by Investing Activities	**2,149,313**	**3,373,834**
NET INCREASE IN CASH AND CASH EQUIVALENTS	83,994,925	67,224,717
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	235,095,535	167,870,818
CASH AND CASH EQUIVALENTS - END OF YEAR	**319,090,460**	**235,095,535**
Reconciliation of operating income to net cash required by operating activities		
Income from Operations	16,365,474	15,897,709
Adjustments to Reconcile Income from Operations		
to Net Cash Required by Operating Activities:		
Changes In Assets: Decrease (Increase)		
Loans Receivable	30,515,911	18,161,664
Due from Other StateFunds	128,274	25,339
Due from Fed Government	4,591	(3,047)
Change in Deferred Outflows of Resources: (Increase) Decrease	(212,845)	266,388
Changes In Liabilities: Increase (Decrease)		
Accounts Payable and Accrued Expenses	183,735	(103,154)
Due to Other State funds	56,967	9,002
Due to Federal Government	28,158	(68,194)
Pension & OPEB Liabilities	(51,341)	43,097
Unavailable Revenue	1,220,376	(2,812,182)
Change in Deferred Inflows of Resources: Decrease (Increase)	195,031	(421,463)
Net Cash Provided (Required) by Operating Activities	**$48,434,332**	**$30,995,159**

The accompanying notes are an integral part of the financial statements

Disbursements and Accruals for the year ended June 30, 2021

	SFY 2021	Federal	State-Match	State-Repmt-Other	564 Acct
2021 Disbursements for Loans	33,407,642	27,880,642	5,527,000	66,267,013	
2021 Disbursements for Admin	1,925,558	55,833	-	-	1,869,725
Total Disbursements	35,333,200	27,936,475	5,527,000	66,267,013	1,869,725
2021 Cash Draw from Capitalization Grants	27,936,475				
2021 State Match (20% of Cash Draws)	5,527,000				
2021 100% State Fund Disbursements	66,267,013				
Total Disbursements Loan, Admin, Fed and State	101,600,213				
Percentage of Cash Draw from Capitalization Grants to Total Disbursements	79.07%				
Admin Calculation	5.75%				

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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