



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Financial Statements Audit Report**  
**LOTT Clean Water Alliance**  
**Thurston County**

**For the period January 1, 2017 through December 31, 2017**

**Published June 28, 2018**

**Report No. 1021670**





**Office of the Washington State Auditor  
Pat McCarthy**

June 28, 2018

Board of Directors  
LOTT Clean Water Alliance  
Olympia, Washington

**Report on Financial Statements**

Please find attached our report on the LOTT Clean Water Alliance's financial statements.

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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**INDEPENDENT AUDITOR'S 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**

**LOTT Clean Water Alliance  
Thurston County  
January 1, 2017 through December 31, 2017**

Board of Directors  
LOTT Clean Water Alliance  
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 LOTT Clean Water Alliance, Thurston County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Alliance's basic financial statements, and have issued our report thereon dated June 26, 2018.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the Alliance'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 Alliance's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alliance'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 Alliance'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 Alliance's financial statements are free from material misstatement, we performed tests of the Alliance'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 Alliance'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 Alliance'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  
State Auditor  
Olympia, WA

June 26, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **LOTT Clean Water Alliance Thurston County January 1, 2017 through December 31, 2017**

Board of Directors  
LOTT Clean Water Alliance  
Olympia, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the LOTT Clean Water Alliance, Thurston County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Alliance'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 Alliance'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 Alliance'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 LOTT Clean Water Alliance, as of December 31, 2017, 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.

## **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.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2018 on our consideration of the Alliance'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 Alliance's internal control over financial reporting and compliance.



Pat McCarthy  
State Auditor  
Olympia, WA

June 26, 2018

## FINANCIAL SECTION

**LOTT Clean Water Alliance  
Thurston County  
January 1, 2017 through December 31, 2017**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2017

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2017

Statement of Revenues, Expenses and Changes in Net Position – 2017

Statement of Cash Flows – 2017

Notes to Financial Statements – 2017

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of Net Pension Liability – PERS 1 – 2017

Schedule of Proportionate Share of Net Pension Liability – PERS 2/3 – 2017

Schedule of Employer Contributions – PERS 1 – 2017

Schedule of Employer Contributions – PERS 2/3– 2017

## Management's Discussion and Analysis

The following discussion and analysis of the financial performance of the LOTT Clean Water Alliance (the Alliance) provides an overall review of the Alliance's financial activities for the year ended December 31, 2017. This discussion is designed to be read in conjunction with the financial statements and notes, which follow this section.

### **FINANCIAL HIGHLIGHTS**

The LOTT Clean Water Alliance was incorporated on April 17, 2000 and operates under the laws of the State of Washington and applicable to 501(c)(3) corporations. All financial reporting is based on twelve months of operations. Key financial highlights for fiscal year 2017 are:

- The Wastewater Service Charge (WSC) increased to \$37.88 in 2017. In August 2017, the Board of Directors voted to increase the Wastewater Service Charge to \$38.64 per month for 2018. The Board will set the rate for 2019 in the fall of 2018.
- The Capacity Development Charge (CDC) increased to \$5,579.31 for 2017. This charge covers the cost to increase capacity of the system to accommodate new growth in the Alliance's service area. Each year, the capacity development charge is increased \$64.10 through the year 2019. In August 2017, the Board of Directors voted to increase the Capacity Development Charge to \$5,810.79 for 2018. The Board will set the rate for 2019 in the fall of 2018.

In 2017, the Alliance had a positive cash flow from operating activities and met all debt obligations. A negative cash flow from Capital and Related Financing Activities was largely the result of using cash on hand to finance construction projects. As of December 31, 2017, the Alliance had an unrestricted net position balance of \$34,933,249. Of this total, approximately \$10.6 million is set aside to pay operational and capital costs in the event of an emergency, with the remainder slated for debt reduction, future capital improvements and system upgrades.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This section of the annual report explains the purpose of the Alliance’s basic financial statements and the notes to the financial statements.

**Basic Financial Statements**

The financial statements of the Alliance are designed to provide readers with a broad overview of the Alliance’s finances similar to a private-sector business. They have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the timing of related cash flows. These statements offer short and long-term financial information about the Alliance’s activities.

The Statement of Net Position presents the Alliance’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as Net Position (equity). The Statement of Net Position provides information about the nature and amount of investments in resources (assets), and the obligations to creditors (liabilities). Net Position increases when revenues exceed expenses. The Statement of Revenues, Expenses, and Changes in Fund Net Position reports the revenues and expenses during the periods indicated. The Statement of Cash Flows provides information about the Alliance’s cash receipts and payments for operations, as well as funds provided and used in investing and financing activities.

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to gain a full understanding of the figures provided in the financial statements.

**FINANCIAL ANALYSIS**

**Condensed Financial Information  
December 31, 2017 and December 31, 2016**

|  | December 31, 2017     | December 31, 2016     |
|--|-----------------------|-----------------------|
| Current and Other Assets                   | \$ 51,216,716         | \$ 53,402,800         |
| Capital Assets                             | 226,114,631           | 223,281,772           |
| <b>Total Assets</b>                        | <b>\$ 277,331,347</b> | <b>\$ 276,684,572</b> |
| Deferred Outflow - Pension                 | \$ 757,285            | \$ 1,224,872          |
| Deferred Loss on Refunding                 | \$ 214,690            | \$ 257,604            |
| <b>Total Deferred Outflow of Resources</b> | <b>\$ 971,975</b>     | <b>\$ 1,482,477</b>   |
| Current Liabilities                        | \$ 10,548,435         | \$ 9,746,697          |
| Other Long-Term Liabilities                | 5,380,443             | 7,232,388             |
| Long-Term Debt                             | 81,236,571            | 88,221,082            |
| <b>Total Liabilities</b>                   | <b>\$ 97,165,450</b>  | <b>\$ 105,200,168</b> |
| Deferred Inflow - Pension                  | \$ 1,003,984          | \$ 117,071            |
| <b>Total Deferred Inflows of Resources</b> | <b>\$ 1,003,984</b>   | <b>\$ 117,071</b>     |
| Net Investment in Capital assets           | \$ 141,177,962        | \$ 131,588,616        |
| Restricted Net Position - Debt Service     | 4,022,677             | 3,465,849             |
| Unrestricted                               | 34,933,249            | 37,795,346            |
| <b>Total Net Position</b>                  | <b>\$ 180,133,889</b> | <b>\$ 172,849,810</b> |

Continued on next page

**Condensed Financial Information  
For the Years Ended December 31, 2017 and December 31, 2016**

|   | <u>2017</u> |                    | <u>2016</u> |                    |
|---|-------------|--------------------|-------------|--------------------|
| <b>Revenue</b>                          |             |                    |             |                    |
| Charges for Services                    | \$          | 27,731,486         | \$          | 26,554,873         |
| Other Operating Revenue                 |             | 499,931            |             | 791,832            |
| <b>Total Operating Revenue</b>          | \$          | <u>28,231,417</u>  | \$          | <u>27,346,705</u>  |
| Capacity Development Charge             | \$          | 7,040,915          | \$          | 10,029,234         |
| Interest Income                         |             | 148,846            |             | 361,395            |
| Federal and State Grants                |             | -                  |             | 3,851              |
| Gain(Loss) on Capital Asset Disposition |             | (1,060,659)        |             | (1,023,729)        |
| Other Nonoperating Revenue              |             | 1,301              |             | 215,099            |
| <b>Total Nonoperating Revenue</b>       | \$          | <u>6,130,403</u>   | \$          | <u>9,585,850</u>   |
| <b>Total Revenue</b>                    | \$          | <u>34,361,820</u>  | \$          | <u>36,932,555</u>  |
| <b>Expenses</b>                         |             |                    |             |                    |
| General Operations                      | \$          | 15,273,309         | \$          | 16,281,666         |
| Professional Services                   |             | 1,825,458          |             | 1,474,219          |
| Depreciation                            |             | 8,086,598          |             | 8,147,327          |
| <b>Total Operating Expenses</b>         | \$          | <u>25,185,364</u>  | \$          | <u>25,903,211</u>  |
| Interest Expense                        | \$          | 1,892,377          | \$          | 2,215,391          |
| <b>Total Non Operating Expenses</b>     |             | <u>1,892,377</u>   |             | <u>2,215,391</u>   |
| <b>Total Expenses</b>                   | \$          | <u>27,077,741</u>  | \$          | <u>28,118,602</u>  |
| <b>Excess (Deficiency)</b>              | \$          | <u>7,284,078</u>   | \$          | <u>8,813,953</u>   |
| <b>Net Position - Beginning of Year</b> | \$          | 172,849,810        | \$          | 164,035,858        |
| <b>Change in Net Position</b>           | \$          | 7,284,078          | \$          | 8,813,953          |
| <b>Net Position - End of Year</b>       | \$          | <u>180,133,889</u> | \$          | <u>172,849,810</u> |

For the twelve months ending December 31, 2017, the total assets of the Alliance increased by approximately \$0.6 million or 0.23% and total liabilities decreased by approximately \$8.0 million or 8%. Total Net Position increased approximately \$7.3 million, and the Alliance’s overall financial position improved. The increase in total assets is primarily due to continued investment in new capital assets funded by charges for services. The decrease in total liabilities is primarily due to scheduled payments of long-term debt.

Operating revenue increased approximately 3% primarily due to the continued growth in the Alliance’s service area and planned increases in rates. This trend is expected to continue through the next reporting period.

The Capacity Development Charge represents the fee charged for new customers to LOTT’s system. Revenue from this charge, before rebates, decreased approximately 28%, primarily due to a higher than normal rate of new connections in 2016. New connections in 2017 returned to nearer the recent historical average. The total number of new connections to the system decreased by 31% and the connection charge increased by approximately 4.2%.

For both the Wastewater Service Charge and the Capacity Development Charge, it is management's intention to propose rate structures which ensure rates are sufficient to keep pace with inflation.

Notwithstanding the higher than normal rate of connections for 2016, the rate of new connections in LOTT's service area had been reasonably consistent since 2008. At this time, management will continue to take a conservative approach to estimating new connections for revenue purposes. Approximately 1000 new connections are expected in 2018.

Total Operating Expenses decreased approximately 3% due to a greater number of expenses being eligible for capitalization than was the case in 2016.

With the exception of the items in Note 1e in the Notes to the Financial Statements, there are no restrictions, commitments or other limitations which may affect the availability of resources for future use.

### Capital Assets

The Alliance had a total net Capital Asset Value of \$226 million as of December 31, 2017. This was an increase of approximately \$2.8 million and is primarily due to the Sludge Dewatering Project construction. Capital Assets consisted of \$44 million in assets not being depreciated including land and construction in process and \$309 million in depreciable assets with a total accumulated depreciation of \$126 million.

Please refer to Note 3 and 4 in the Notes to the Financial Statements for more information.

### Long-term Debt

The Alliance currently has the following long term debt:

- A revenue bond issued in 2011. This bond refunded the Alliance's 2002 revenue bond and a 1992 loan from the Washington State Department of Ecology, as well as provided funds for various projects in the Alliance's capital improvement plan. This is a 20 year bond with coupon rates ranging from 2.0% to 5.0% and a true interest cost of approximately 3.16%. Bond covenants require approximately \$2.8 million in cash reserves. The Alliance makes semi-annual payments, which range from \$0.3 to \$3.3 million.
- A Department of Ecology State Revolving Fund Loan to construct new primary sedimentation tanks. This is a 20 year loan with a 2.6% interest rate and semi-annual payments of \$1,245,972. The Alliance's agreement with the Department of Ecology states that one year's payment be kept in a restricted account which may be accumulated over the first five years of the loan's repayment in approximately equal annual payments. As of December 31, 2017, the Alliance has deposited \$1,993,556 to a restricted account as required by the loan agreement.
- A Department of Ecology State Revolving Fund Loan, to construct the Martin Way Reclaimed Water Plant in 2004. This is a 20 year loan with a 1.5% interest rate and semi-annual payments of \$919,149. As of December 31, 2017, the Alliance has \$1,838,298 in a restricted account as required by the loan agreement.
- A Washington State Revolving Fund Loan made as part of the American Reinvestment and Recovery Act to construct a reclaimed water line to Tumwater. This is a 20 year loan with a 2.9% interest rate and semi-annual payments in the amount of \$36,972. As of December 31, 2017, the Alliance has \$73,944 in a restricted account as required by the loan agreement.
- A Washington State Public Works Trust Fund loan for construction of new primary sedimentation tanks. This is a 20 year loan with a 0.5% interest rate and annual payments ranging from \$549,559 to \$567,375.

- A Washington State Public Works Trust Fund Loan issued in March 2005, for the upgrade of the Budd Inlet Treatment Plant Secondary Clarifiers. This is a 20 year loan with a 0.5% interest rate and annual payments ranging from \$230,077 to \$238,089.
- A Washington State Public Works Trust Fund Loan issued in 2008 for construction of the Kaiser Road Pump Station and Kaiser Road Forcemain replacement. This is a 20 year loan with a 0.5% interest rate and annual payments ranging from \$200,587 to \$210,567.
- A Department of Ecology State Revolving Fund Loan to construct a reclaimed water storage tank. This is a 20 year loan with a 2.6% interest rate and semi-annual payments of \$146,099. As of December 31, 2017, the Alliance has \$116,879 in a restricted account as required by the loan agreement.

Please refer to Note 5 in the Notes to the Financial Statements for more information.

#### **REQUESTS FOR INFORMATION**

The Alliance's financial statements, notes and management discussion and analysis are designed to provide a general overview of the Alliance's finances. Questions concerning any of the information presented in this report should be directed to the Alliance at:

LOTT Clean Water Alliance  
500 Adams St NE  
Olympia, WA 98501  
(360) 664-2333

## Statement of Net Position December 31, 2017

|  | 2017                  |
|--|-----------------------|
| <b>ASSETS</b>                                  |                       |
| <u>Current Assets</u>                          |                       |
| Cash and Cash Equivalents                      | \$ 41,396,667         |
| Receivables (Net)                              | 33,964                |
| Due from other Governmental Units              | 2,866,668             |
| Prepayments                                    | 54,558                |
| <b>Total Current Assets</b>                    | <b>\$ 44,351,857</b>  |
| <u>Noncurrent Assets</u>                       |                       |
| Restricted cash and cash equivalents           | \$ 6,864,859          |
| Capital Assets:                                |                       |
| Land   | 26,139,970            |
| Plant  | 219,141,784           |
| Collection System                              | 86,841,432            |
| Machinery and Equipment                        | 2,739,832             |
| Construction in Progress                       | 17,456,325            |
| Accumulated Depreciation                       | (126,204,713)         |
| Total Capital Assets (Net)                     | <b>\$ 226,114,631</b> |
| <b>Total Noncurrent Assets</b>                 | <b>\$ 232,979,490</b> |
| <b>TOTAL ASSETS</b>                            | <b>\$ 277,331,347</b> |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>          |                       |
| Deferred Outflow - Pension                     | \$ 757,285            |
| Deferred Loss on Refunding                     | 214,690               |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>    | <b>\$ 971,975</b>     |
| <b>LIABILITIES</b>                             |                       |
| <u>Current Liabilities</u>                     |                       |
| Accounts Payable                               | \$ 2,689,594          |
| Wages, Benefits & Compensated Absences Payable | 1,101,872             |
| Current Portion of Long-Term Debt              | 6,756,969             |
| <b>Total Current Liabilities</b>               | <b>\$ 10,548,435</b>  |
| <u>Noncurrent Liabilities:</u>                 |                       |
| Compensated Absences                           | \$ 833,307            |
| Net Pension Liability                          | 4,547,137             |
| Long-Term Debt (Net of Current Portion)        | 81,236,571            |
| <b>Total Noncurrent Liabilities</b>            | <b>\$ 86,617,015</b>  |
| <b>TOTAL LIABILITIES</b>                       | <b>\$ 97,165,450</b>  |
| <b>DEFERRED INFLOWS OF RESOURCES</b>           |                       |
| Deferred Inflow - Pension                      | \$ 1,003,984          |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>     | <b>\$ 1,003,984</b>   |
| <b>NET POSITION</b>                            |                       |
| Net Investment in Capital Assets               | \$ 141,177,962        |
| Restricted Net Position - Debt Service         | \$ 4,022,677          |
| Unrestricted                                   | 34,933,249            |
| <b>TOTAL NET POSITION</b>                      | <b>\$ 180,133,889</b> |

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

**Statement of Revenues, Expenses and Changes in Fund Net Position  
For the Year Ended December 31, 2017**

|   | <u>2017</u>                  |
|---|------------------------------|
| <b>OPERATING REVENUES</b>                     |                              |
| Charges for Services                          | \$ 27,731,486                |
| Other Operating Revenue                       | 499,931                      |
| <b>Total Operating Revenue</b>                | <u>\$ 28,231,417</u>         |
| <b>OPERATING EXPENSES</b>                     |                              |
| General Operations                            | \$ 15,273,309                |
| Professional Services                         | 1,825,458                    |
| Depreciation                                  | 8,086,598                    |
| <b>Total Operating Expenses</b>               | <u>\$ 25,185,364</u>         |
| <b>OPERATING INCOME (LOSS)</b>                | <u>\$ 3,046,052</u>          |
| <b>NONOPERATING REVENUE (EXPENSES)</b>        |                              |
| Capacity Development Charge, net of rebate    | \$ 7,040,915                 |
| Interest Income                               | 148,846                      |
| Interest Expense                              | (1,892,377)                  |
| Gain (Loss) on Capital Asset Disposition      | (1,060,659)                  |
| Other Nonoperating Revenues                   | 1,301                        |
| <b>Total Nonoperating Revenues (Expenses)</b> | <u>\$ 4,238,026</u>          |
| <b>CHANGE IN NET POSITION</b>                 | <u>\$ 7,284,078</u>          |
| <b>TOTAL NET POSITION January 1</b>           | <u>\$ 172,849,810</u>        |
| <b>TOTAL NET POSITION, December 31</b>        | <u><u>\$ 180,133,889</u></u> |

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

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

**Statement of Cash Flows - Page 1 of 2**  
**For the Year Ended December 31, 2017**

|   | 2017                   |
|---|------------------------|
| <b>Cash Flows from Operating Activities</b>                                   |                        |
| Cash Received from Customers  | \$ 28,899,001          |
| Cash Received from Other Operating Activities                                 | 123,202                |
| Cash Payments to Suppliers for Goods & Services                               | (1,539,671)            |
| Cash Payments to Employees  | (9,322,040)            |
| Cash Payments for Other Operating Activities                                  | (6,117,871)            |
| <b>Net Cash Provided (Used) by Operating Activities</b>                       | <b>\$ 12,042,622</b>   |
| <br><b>Cash Flows from Non-Capital Financing Activities</b>                   |                        |
| Donations   | \$ 1,301               |
| <b>Net Cash Provided (Used) in Non-Capital Financing Activities</b>           | <b>\$ 1,301</b>        |
| <br><b>Cash Flows from Capital and Related Financing Activities</b>           |                        |
| Proceeds from Capacity Development Charge                                     | \$ 7,040,915           |
| Acquisition, Construction and Improvements of Capital Assets                  | (11,980,115)           |
| Repayments on Loans   | (4,398,402)            |
| Bond Principal Payments   | (2,265,000)            |
| Interest paid on Loans  | (1,119,860)            |
| Interest paid on Revenue Bonds  | (863,256)              |
| <b>Net Cash Provided (Used) in Capital and Related Financing Activities</b>   | <b>\$ (13,585,719)</b> |
| <br><b>Cash Flows from Investing Activities</b>                               |                        |
| Interest Received on Investments  | \$ 505,727             |
| Increase(Decrease) in fair value of investment classified as cash equivalents | (356,882)              |
| <b>Net Cash Provided by Investing Activities</b>                              | <b>\$ 148,846</b>      |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                   | <b>\$ (1,392,950)</b>  |
| Cash and Cash Equivalents at Beginning of Year                                | \$ 49,654,477          |
| <b>Cash and Cash Equivalents at End of Year</b>                               | <b>\$ 48,261,526</b>   |

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

**Statement of Cash Flows - Page 2 of 2**  
**For the Year Ended December 31, 2017**

**Reconciliation of Operating Income (Loss) to Net Cash Provided  
 by Operating Activities:**

|   | <b>2017</b>          |
|---|----------------------|
| Operating Income  | \$ 3,046,052         |
| <b>Adjustments:</b>   |                      |
| Depreciation  | \$ 8,086,598         |
| Changes in Operating Assets and Liabilities:                      |                      |
| Receivables (Net)   | 790,787              |
| Accounts Payable  | 792,122              |
| Wages and Benefits Payables                                       | (772,135)            |
| Compensated Absences Payable                                      | 99,198               |
| Total Changes in Operating Assets and Liabilities                 | \$ 909,972           |
| Total Adjustments   | \$ 8,996,569         |
| <b>Net Cash Provided by Operating Activities</b>                  | <b>\$ 12,042,622</b> |
| <br><b>Noncash Investing, Capital or Financing Transactions:</b>  |                      |
| Change in Deferred Amount on Refunding                            | \$ 42,914            |
| Change in Unamortized Bond Premium                                | (136,002)            |
| <b>Total Noncash Investing, Capital or Financing Transactions</b> | <b>\$ (93,087)</b>   |

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

## Notes to the Financial Statements For the Year Ended December 31, 2017

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the LOTT Clean Water Alliance (the Alliance) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant policies:

a. Reporting Entity  
The Alliance was incorporated on April 17, 2000 and operates under the laws of the State of Washington applicable to 501(c)(3) corporations. The Alliance is recognized as a governmental organization and was formed under the Inter-local Cooperation Act (RCW 39.34).

b. Basis of Accounting and Presentation  
The accounting records of the Alliance are maintained in accordance with methods prescribed by the State Auditor under the authority of RCW 43.09.

The Alliance’s statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the cash flows.

The Alliance distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Alliance’s ongoing operations. The principal operating revenues of the Alliance is the Wastewater Service Charge. Operating expenses for the Alliance include the costs associated with conveying and treating wastewater. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Capital asset purchases are capitalized and unbilled utility service receivables are recorded at year-end. Gains and losses from the disposal of capital assets are excluded from operating income.

c. Cash and Cash Equivalents  
For purposes of the statement of cash flows, the Alliance considers all highly liquid investments including restricted assets with a maturity of three months or less when purchased to be cash equivalents.

d. Capital Assets and Depreciation  
See Note 3.

e. Restricted Assets  
In accordance with bond resolutions and other agreements, separate accounts have been established for restricted- or limited-use funds. The assets held in these accounts are limited as to use for their respective debt service reserve requirements, and are as follows:

| Item                                | Amount              |
|-------------------------------------|---------------------|
| Primary Sedimentation Tank SRF Loan | \$ 1,993,556        |
| 2011 Revenue Bond                   | 2,842,182           |
| Hawks Prairie SRF Loan              | 1,838,298           |
| Deschutes Parkway SRF Loan          | 73,944              |
| Reclaimed Water Tank SRF Loan       | 116,879             |
| <b>Total</b>                        | <b>\$ 6,864,859</b> |

f. Receivables  
 Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Receivables have been reported net of estimated uncollectible accounts.

g. Investments  
 See Note 2.

h. Compensated Absences  
 Vacation leave may be accumulated up to 480 hours for all employees and is payable upon separation. The liability for unpaid vacation leave as of December 31, 2017 was \$547,195.

Comp time earned in place of overtime can accrue up to 120 hours for eligible independent and represented non-exempt employees. This bank is payable upon separation or at any time the employee requests it. The liability for unpaid comp time as of December 31, 2017 is \$21,086.

Sick leave may accumulate up to 960 hours for all employees and is payable to employees upon retirement, up to 120 hours. Ninety percent of the value of any remaining sick leave is deposited into a healthcare reimbursement account (HRA) through a voluntary employee beneficiary association (VEBA) and ten percent is deposited into the shared leave account per the Alliance's Administrative Guidelines. Upon non-retirement separation, the entire value of an employee's unused sick leave is deposited into the shared leave account per the Alliance's Administrative Guidelines. The liability for unpaid sick leave as of December 31, 2017 is \$798,382 and the balance in the shared leave account is estimated to be \$318,080.

Employees earned \$915,239 and used \$786,245 in compensated absences during 2017. The total liability for compensated absences as of December 31, 2016 and 2017 was \$1,555,749 and \$1,684,743, respectively. Management estimates \$851,436 of total compensated absences will be due within one year of the date of the Statement of Net Position.

i. Pensions  
 For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

j. Reserved Funds  
 In June 2007, the Alliance Board of Directors approved resolutions to establish emergency cash reserves. In 2013, the Board adopted metrics which required the operation reserve to be indexed to six months of operating expenses. However, when setting the 2017 through 2018 Budget, the Board of Directors chose to forgo additional transfers into the reserve account in an effort to minimize rate increases. These reserves are intended to keep the utility in operation in the event of cash flow disruptions that can occur due to natural or man-made catastrophes. The Alliance's emergency reserves are as follows:

| <u>Type</u>                  | <u>Amount</u>       |
|------------------------------|---------------------|
| Emergency Capital Reserve    | 3,000,000           |
| Emergency Operations Reserve | 7,563,692           |
| Total                        | <u>\$10,563,692</u> |

**NOTE 2 - DEPOSITS AND INVESTMENTS**

All deposits and investments of the Alliance are held with the Thurston County Treasurer in the Thurston County Investment Pool (TCIP). Deposits and investments with the County Treasurer are governed by State statute and County investment policy. All investment instruments are those allowed by statute, which may include U.S. Treasury Notes, Federal Agencies, bankers' acceptances, short-term commercial paper, money market account, and the State Treasurer's Local Government Investment Pool (LGIP). There are no statutory regulatory oversight of the LGIP other than annual audits through the Washington State Auditor's Office. The fair value of the County Shares in the LGIP is dollar for dollar equal to the value of pool shares. The LGIP offers 100% liquidity, therefore, all of these short term investments are considered cash equivalents and not subject to risk categorization.

The investment policy of the County Treasurer dictates that all investment instruments be transacted on delivery vs. payment basis. Wells Fargo acts as safekeeping agent for the Thurston County Treasurer.

Custodial credit risk - The County Treasurer limits its credit risk through diversification of security types and issuers. County policy further limits risk to investments in securities that have one of the three highest ratings of a national rating agency at the time of investment.

Fair Market Value - GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. This hierarchy has three levels:

- Level 1 - Pricing inputs are observable inputs such as quoted prices, available in active markets, for identical assets on the measurement date;
- Level 2 - Pricing inputs are either directly or indirectly observable inputs available in active markets as of the measurement date; and
- Level 3 - Pricing inputs are unobservable inputs used in cases where financial instruments are considered illiquid, with no significant market activity and little or no pricing information on the date of measurement.

The Alliance considers all amounts on deposit in the TCIP as of December 31, 2017 to be cash and cash equivalents and are based on level 1 inputs with a fair value of \$48,261,256. The TCIP is not rated by a nationally recognized statistical rating organization (NRSRO) and has an effective duration of 1.47 years.

**NOTE 3 - CAPITAL ASSETS AND DEPRECIATION**

All capital assets are valued at historical cost or estimated cost, where historical cost is not known.

The Alliance capitalizes all land, buildings, improvements, and equipment purchased or donated in accordance with the Alliance's Capital Asset Policy.

Any additions to existing capitalized equipment which increase its useful value are also capitalized as an enhancement to that equipment. Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. Costs for normal maintenance and repairs are not capitalized.

Assets in each category are capitalized if they exceed the capitalization threshold and depreciation on all assets is provided on the straight-line basis over the useful lives, as shown in the following tables.

| Category                               | Capitalization Threshold | Useful Life   |
|--|--------------------------|---------------|
| Treatment Facility                     | \$50,000                 | 25 - 50 years |
| Collection System                      | \$50,000                 | 50 - 60 years |
| Any asset purchased with federal funds | \$5,000                  | 5 - 60 years  |
| Other Assets                           | \$5,000                  | 5 - 20 years  |

Changes to the Alliance's Capital Asset Policy

In 2017, the LOTT Board of Directors updated the Alliance’s Capital Asset Policy. All policy elements will be implemented prospectively. The most significant change to the Capital Asset Policy was to increase capitalization thresholds from a flat \$5,000 to the amounts shown previously in this note based on the category of asset.

Asset Category Reclassification

Additionally in 2017, the Budd Inlet Reclaimed Water Plant was reclassified as “Buildings and Improvements” from “Treatment Collection System.” This resulted in a change of \$6,350,000 in assets and \$5,438,870 in accumulated depreciation for the two affected categories, but had no effect on capital assets in total.

Interest Capitalization

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital asset is included as part of the capitalized value of the assets constructed. During 2017, the Alliance incurred \$2,176,497 in interest costs, of which \$327,035 was included as part of the cost of capital assets under construction.

Capital asset activity for the year ended December 31, 2017 was as follows:

| <b>Asset</b>                                       | <b>Beginning Balance</b> | <b>Increase</b>        | <b>Decrease</b>       | <b>Ending Balance</b>   |
|--|--------------------------|------------------------|-----------------------|-------------------------|
| <b>Capital assets not being depreciated:</b>       |                          |                        |                       |                         |
| Land and Land Improvements                         | \$ 27,001,542            | \$ 15,826              | \$ 877,397            | \$ 26,139,970           |
| Construction in Progress                           | 19,273,915               | 12,707,984             | 14,525,574            | 17,456,325              |
| <b>Total capital assets not being depreciated</b>  | <b>\$ 46,275,457</b>     | <b>\$ 12,723,810</b>   | <b>\$ 15,402,971</b>  | <b>\$ 43,596,296</b>    |
| <b>Capital Assets being depreciated:</b>           |                          |                        |                       |                         |
| Buildings and Improvements                         | \$ 205,826,661           | \$ 19,665,123          | \$ 6,350,000          | \$ 219,141,784          |
| Machinery and Equipment                            | 2,273,366                | 493,917                | 27,451                | 2,739,832               |
| Treatment Collection System                        | 92,490,725               | 568,785                | 6,218,078             | 86,841,432              |
| <b>Total capital assets being depreciated</b>      | <b>\$ 300,590,752</b>    | <b>\$ 20,727,826</b>   | <b>\$ 12,595,529</b>  | <b>\$ 308,723,048</b>   |
| <b>Less accumulated depreciation for:</b>          |                          |                        |                       |                         |
| Buildings and Improvements                         | \$ (97,335,241)          | \$ (8,754,795)         | (5,438,870)           | \$ (100,651,166)        |
| Machinery and Equipment                            | (782,336)                | (213,681)              | (27,451)              | (968,566)               |
| Treatment Collection System                        | (25,466,859)             | (2,227,161)            | (3,109,039)           | (24,584,981)            |
| <b>Total accumulated depreciation</b>              | <b>\$ (123,584,437)</b>  | <b>\$ (11,195,637)</b> | <b>\$ (8,575,361)</b> | <b>\$ (126,204,713)</b> |
| <b>Total capital assets being depreciated, net</b> | <b>\$ 177,006,315</b>    | <b>\$ 9,532,189</b>    | <b>\$ 4,020,169</b>   | <b>\$ 182,518,335</b>   |
| <b>Total capital assets, net</b>                   | <b>\$ 223,281,772</b>    | <b>\$ 22,255,998</b>   | <b>\$ 19,423,140</b>  | <b>\$ 226,114,631</b>   |

**NOTE 4 - CONSTRUCTION IN PROGRESS**

The following table details construction in progress activity as of December 31, 2017:

| Project Name                                  | Expended through<br>12/31/17 |
|---|------------------------------|
| Biological Process Improvements               | \$ 1,502,653                 |
| North Outfall Upgrade                         | 229,522                      |
| Locker Room Upgrades                          | 18,905                       |
| Tumwater 3 mgd Recharge & Conveyance          | 1,366,900                    |
| Martin Way Reclaimed Water Plant Improvements | 1,082,254                    |
| Ultraviolet Disinfection Upgrades             | 281,992                      |
| Sludge Dewatering Upgrade                     | 11,661,665                   |
| Capitol Lake Pump Station Odor Control        | 639,653                      |
| Digester Building Gas Valve Replacement       | 217,231                      |
| Lab Building Skylight Refurb                  | 248,110                      |
| Engine Generator Replacement                  | 51,246                       |
| Records Management System                     | 156,193                      |
| <b>Total</b>                                  | <b>\$ 17,456,325</b>         |

**NOTE 5 - LONG-TERM DEBT**

As of December 31, 2017, long-term debt consisted of the following:

| Issue Name                                       | Original Amount       | Annual Installments | Final Maturity | Interest Rates | Balance 12/31/17     |
|--|-----------------------|---------------------|----------------|----------------|----------------------|
| <b>State of Washington Revolving Fund Loans:</b> |                       |                     |                |                |                      |
| Hawks Prairie Reclaimed Water Facility           | 31,162,916            | \$ 1,838,298        | 2027           | 1.5%           | \$ 16,216,376        |
| Deschutes Parkway Pipeline                       | 1,086,346             | 73,944              | 2030           | 2.9%           | 769,862              |
| Primary Sedimentation Basins                     | 37,552,332            | 2,491,944           | 2033           | 2.6%           | 32,413,072           |
| Reclaimed Water Tank                             | 4,394,506             | 292,198             | 2035           | 2.6%           | 4,082,522            |
| <b>Public Works Trust Fund Loans:</b>            |                       |                     |                |                |                      |
| Secondary Clarifiers                             | 4,278,404             | 230,077 - 238,089   | 2025           | 0.5%           | 1,831,458            |
| Kaiser Road Pump Station                         | 3,743,641             | 200,587 - 210,567   | 2028           | 0.5%           | 2,195,481            |
| Primary Sedimentation Basins Construction        | 10,000,000            | 549,559 - 567,375   | 2031           | 0.5%           | 7,674,632            |
| <b>Revenue Bonds:</b>                            |                       |                     |                |                |                      |
| 2011 Revenue Bond *                              | 32,800,000            | 0.3 to 3.3 million  | 2031           | 3.16%          | 20,905,000           |
| <b>Total Debt</b>                                | <b>\$ 125,018,145</b> |                     |                |                | <b>\$ 86,088,402</b> |

\* - Subject to federal arbitrage requirements

During the year ended December 31, 2017, the following changes occurred in long-term debt:

| Issue Name                                       | Beginning Balance 1/1/17 | Increases   | Decreases           | Ending Balance 12/31/17 | Due Within One Year |
|--|--------------------------|-------------|---------------------|-------------------------|---------------------|
| <b>State of Washington Revolving Fund Loans:</b> |                          |             |                     |                         |                     |
| Hawks Prairie Reclaimed Water Facility           | 17,792,854               | -           | 1,576,478           | 16,216,376              | 1,600,289           |
| Deschutes Parkway Pipeline                       | 820,240                  | -           | 50,378              | 769,862                 | 51,858              |
| Primary Sedimentation Basins                     | 34,026,007               | -           | 1,612,935           | 32,413,072              | 1,655,375           |
| Reclaimed Water Tank                             | 4,264,423                | -           | 181,901             | 4,082,522               | 92,738              |
| <b>Public Works Trust Fund Loans:</b>            |                          |             |                     |                         |                     |
| Secondary Clarifiers                             | 2,060,390                | -           | 228,932             | 1,831,458               | 228,932             |
| Kaiser Road Pump Station                         | 2,395,070                | -           | 199,589             | 2,195,481               | 199,589             |
| Primary Sedimentation Basins Construction        | 8,222,820                | -           | 548,188             | 7,674,632               | 548,188             |
| <b>Revenue Bonds:</b>                            |                          |             |                     |                         |                     |
| 2011 Revenue Bond                                | 23,170,000               |             | 2,265,000           | 20,905,000              | 2,380,000           |
| <b>Total Debt</b>                                | <b>\$ 92,751,803</b>     | <b>\$ -</b> | <b>\$ 6,663,402</b> | <b>\$ 86,088,402</b>    | <b>\$ 6,756,969</b> |

The annual requirements to amortize all debts outstanding as of December 31, 2017, including principal and interest, are as follows.

| Year Ending December 31st | Bonds             |                  |                   | Year Ending December 31st | Loans             |                   |                   |
|---------------------------|-------------------|------------------|-------------------|---------------------------|-------------------|-------------------|-------------------|
|                           | Bond Principal    | Bond Interest    | Bond Total        |                           | Loan Principal    | Loan Interest     | Loan Total        |
| 2018                      | 2,380,000         | 876,500          | 3,256,500         | 2018                      | 4,376,969         | 1,189,348         | 5,566,317         |
| 2019                      | 2,500,000         | 754,500          | 3,254,500         | 2019                      | 4,542,609         | 1,166,293         | 5,708,902         |
| 2020                      | 2,615,000         | 639,700          | 3,254,700         | 2020                      | 4,618,392         | 1,087,897         | 5,706,289         |
| 2021                      | 2,735,000         | 519,025          | 3,254,025         | 2021                      | 4,695,898         | 1,005,978         | 5,701,876         |
| 2022                      | 1,945,000         | 402,025          | 2,347,025         | 2022                      | 4,775,170         | 923,193           | 5,698,363         |
| 2023-2027                 | 4,455,000         | 1,335,900        | 5,790,900         | 2023-2027                 | 23,752,718        | 3,310,531         | 27,063,249        |
| 2028-2032                 | 4,275,000         | 364,038          | 4,639,038         | 2028-2032                 | 15,139,871        | 1,372,744         | 16,512,615        |
|                           | <b>20,905,000</b> | <b>4,891,688</b> | <b>25,796,688</b> | 2033-2035                 | 3,281,775         | 86,763            | 3,368,538         |
|                           |                   |                  |                   |                           | <b>65,183,401</b> | <b>10,142,746</b> | <b>75,326,148</b> |

Items related to 2011 Bond Issue

Annualized interest expense is decreased by amortization of debt premium and is amortized over the 20 year life of the bond. As of December 31, 2017, the unamortized debt premium is \$1,905,139. Deferred Loss on Refunding represents the unamortized portion of the difference between the amount which was due on the refunded debt and the amount which was required to be put in escrow to make future payments. It is amortized over the 11 years that the refunded debt would have been outstanding.

At December 31, 2017, the Alliance had \$2,842,182 in cash reserves as required by bond indentures.

**NOTE 6 – PENSION PLAN**

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB 68, *Accounting and Financial Reporting for Pensions* for the year 2017.

| Aggregate Pension Amounts – All Plans |             |
|---------------------------------------|-------------|
| Pension liabilities                   | \$4,547,137 |
| Deferred outflows of resources        | \$757,285   |
| Deferred inflows of resources         | \$1,003,984 |
| Pension expense                       | \$193,398   |

State Sponsored Pension Plans

Substantially all of the Alliance’s full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes and amends laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

**Public Employees’ Retirement System (PERS)**

PERS members include elected officials, state employees, employees of the Supreme, Appeals, and Superior Courts, employees of the legislature, employees of district and municipal courts, employees of local governments, and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 – Description

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the members’ years of service. The AFC is the average of the member’s highest 24 consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of services, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor

benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

PERS Plan 1 – Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

| <b>Actual Contributions Rates</b> | <b>Employer</b> | <b>Employee</b> |
|-----------------------------------|-----------------|-----------------|
| <u>January – June 2017:</u>       |                 |                 |
| PERS Plan 1                       | 6.23%           | 6.00%           |
| PERS Plan 1 UAAL                  | 4.77%           |                 |
| Administrative Fee                | 0.18%           |                 |
| <b>Total</b>                      | <b>11.18%</b>   | <b>6.00%</b>    |
| <u>July – December 2017:</u>      |                 |                 |
| PERS Plan 1                       | 7.49%           | 6.00%           |
| PERS Plan 1 UAAL                  | 5.03%           |                 |
| Administrative Fee                | 0.18%           |                 |
| <b>Total</b>                      | <b>12.70%</b>   | <b>6.00%</b>    |

PERS Plan 2/3 – Description

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member’s 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined

contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Plan 2/3 – Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

| Actual Contributions Rates   | Employer 2/3  | Employee (2 only) |
|------------------------------|---------------|-------------------|
| <u>January - June 2017</u>   |               |                   |
| PERS Plan 2/3                | 6.23%         | 6.12%             |
| PERS Plan 1 UAAL             | 4.77%         |                   |
| Administrative Fee           | 0.18%         |                   |
| Employee PERS Plan 3         |               | varies            |
| <b>Total</b>                 | <b>11.18%</b> | <b>6.12%</b>      |
| <u>July - December 2017:</u> |               |                   |
| PERS Plan 1                  | 7.49%         | 7.38%             |
| PERS Plan 1 UAAL             | 5.03%         |                   |
| Administrative Fee           | 0.18%         |                   |
| <b>Total</b>                 | <b>12.70%</b> | <b>7.38%</b>      |

The employee contribution to Plan 3 varies depending on the contribution rate chosen by the employee.

The Alliance’s actual PERS plan contributions were \$330,105 to Plan 1 and 459,937 to Plan 2/3, for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) 2007-2012 Experience Study and the 2015 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 3.0% total economic inflation; 3.75% salary inflation
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5%

Mortality rates were based on the RP-2000 report’s Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The 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, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions since the last valuation:

- How terminated and vested member benefits are valued was corrected
- How basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- The average expected remaining service lives calculation was revised.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 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 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liability). Based on these assumptions, the pension plans' 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 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various time horizons.

Estimated Rates of Return by Asset Class

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, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

| Asset Class     | Target Allocation | % Long-Term Expected Real Rate of Return Arithmetic |
|-----------------|-------------------|---|
| Fixed Income    | 20%               | 1.70%   |
| Tangible Assets | 5%                | 4.90%   |
| Real Estate     | 15%               | 5.80%   |
| Global Equity   | 37%               | 6.30%   |
| Private Equity  | 23%               | 9.30%   |
|                 | 100%              |   |

Sensitivity of Net Pension Liability

The table below presents the Alliance's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Alliance's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

| Plan     | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|----------|--------------------|------------------------------|--------------------|
| PERS 1   | 2,852,576          | 2,341,649                    | 1,899,076          |
| PERS 2/3 | 5,941,814          | 2,205,488                    | (855,878)          |

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Alliance reported a total pension liability of \$4,547,137 for its proportionate share of the net pension liabilities as follows :

| Plan     | Liability   |
|----------|-------------|
| PERS 1   | \$2,341,649 |
| PERS 2/3 | 2,205,488   |

At June 30, 2017 the Alliances proportionate share of the collective net pension liabilities was as follows:

| Plan     | Proportionate Share 6/30/16 | Proportionate Share 6/30/17 | Change in Proportion |
|----------|-----------------------------|-----------------------------|----------------------|
| PERS 1   | 0.054966%                   | 0.049349%                   | (0.005617%)          |
| PERS 2/3 | 0.070435%                   | 0.063476%                   | (0.006959%)          |

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer’s proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for both PERS Plan 1 and PERS Plan 2/3.

The collective net pension liability was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the Alliance recognized pension expense as follows:

| Plan     | Pension Expense |
|----------|-----------------|
| PERS 1   | (\$138,102)     |
| PERS 2/3 | 331,500         |

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the Alliance reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

| PERS Plan 1  | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Differences between expected and actual experience   | \$ -                           | \$ -                          |
| Net difference between projected and actual investment earnings on pension plan investments          | \$ -                           | \$ (87,384)                   |
| Changes of assumptions   | \$ -                           | \$ -                          |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$ -                           | \$ -                          |
| Contributions subsequent to the measurement date   | \$ 157,687                     | \$ -                          |
| TOTAL  | \$ 157,687                     | \$ (87,384)                   |

| PERS Plan 2/3  | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Differences between expected and actual experience   | \$ 223,468                     | \$ (72,535)                   |
| Net difference between projected and actual investment earnings on pension plan investments          | \$ -                           | \$ (587,930)                  |
| Changes of assumptions   | \$ 23,426                      | \$ -                          |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$ 117,960                     | \$ (256,135)                  |
| Contributions subsequent to the measurement date   | \$ 234,744                     | \$ -                          |

|       |            |              |
|-------|------------|--------------|
| TOTAL | \$ 599,598 | \$ (916,600) |
|-------|------------|--------------|

Deferred outflows of resources related to pensions resulting from the Alliance’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended<br>December 31: | PERS Plan 1 | PERS Plan 2/3 |
|----------------------------|-------------|---------------|
| 2018                       | \$ (59,066) | \$ (220,159)  |
| 2019                       | \$ 18,648   | \$ 76,669     |
| 2020                       | \$ (4,330)  | \$ (83,323)   |
| 2021                       | \$ (42,636) | \$ (277,123)  |
| 2022                       | \$ -        | \$ (20,786)   |
| Thereafter                 | \$ -        | \$ (27,022)   |
| Total                      | \$ (87,384) | \$ (551,745)  |

Changes in Net Pension Liability

Net Pension Liability decreased by \$1,951,143 from \$6,498,280 in 2016 to \$4,547,137 in 2017.

**NOTE 7 – ASSOCIATION OF WASHINGTON CITIES EMPLOYEE BENEFIT TRUST**

The Alliance is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2017, 261 cities, towns, and non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2017, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide

written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns.

The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

#### **NOTE 8 – RISK MANAGEMENT**

The LOTT Clean Water Alliance is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 161 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in the re-insured excess layer. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, actuarial and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal agreement, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

Settlements

In the past three years, there have been no settlements that exceeded insurance coverage.

**NOTE 9 – CONTINGENCIES AND LITIGATION**

The Alliance has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the Alliance will have to make payment. In the opinion of management, the Alliance's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims.

The Alliance participates in a number of federal and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenses disallowed under the terms of the grants. Management believes that such disallowances, if any, would be immaterial.

**NOTE 10 – MATERIAL RELATED PARTY TRANSACTIONS**

The Alliance was formed by an interlocal agreement by Thurston County and the cities of Olympia, Lacey and Tumwater. Substantially all the Alliance's revenues come from wastewater charges (Wastewater Service Charge) and connection charges (Capacity Development Charge) collected by the cities of Olympia, Lacey and Tumwater and remitted to the Alliance. As of December 31, 2017, the Alliance held short-term receivables in the following amounts:

| Account  | Amount      |
|----------|-------------|
| Olympia  | \$1,293,653 |
| Lacey    | \$1,119,535 |
| Tumwater | \$453,479   |

All of the receivables listed above were collected in January 2018.

**NOTE 11 – SUBSEQUENT EVENTS**

In April 2018, the Alliance made the first draw in the amount of \$537,551 on a State Revolving Fund loan with the Washington State Department of Ecology. This loan was awarded in 2017 in the amount for \$2.01 million with a 2% annual interest rate to provide funding for the design of the Biological Process Improvements project.

**NOTE 12 – CAPACITY DEVELOPMENT CHARGE REBATE**

As part of the 2017-2018 Budget, the Board of Directors created a pilot rebate program to encourage property owners with septic systems to hook up to the LOTT system. The pilot program's goal is two-fold: reduce nutrient to LOTT's receiving waters by providing a higher level of treatment than septic systems can provide, and gauge the effectiveness of such a program, including the financial benefits to existing LOTT ratepayers. Eligible participants in the pilot program can receive a rebate of between 50% and 75% of the Capacity Development Charge, depending on income. In 2017, the pilot program funded rebates totaling \$193,602.

**Required Supplementary Information**  
**Schedule of Proportionate Share of the Net Pension Liability, PERS Plan**  
**1**  
**As of June 30, Last 10 Fiscal Years**

|   | 2017         | 2016         | 2015         |
|---|--------------|--------------|--------------|
| Employer's proportion of the net pension liability (asset)  | 0.049349%    | 0.054966%    | 0.051213%    |
| Employer's proportionate share of the net pension liability   | \$ 2,341,649 | \$ 2,951,933 | \$ 2,678,916 |
| TOTAL   | \$ 2,341,649 | \$ 2,951,933 | \$ 2,678,916 |
| Employer's covered employee payroll   | \$ 6,223,189 | \$ 6,576,015 | \$ 5,635,191 |
| Employer's proportionate share of the net pension liability as a percentage of covered employee payroll | 37.63%       | 44.89%       | 47.54%       |
| Plan fiduciary net position as a percentage of the total pension liability                              | 61.24%       | 57.03%       | 59.10%       |

Notes To the Schedule of Proportionate Share of the Net Pension Liability, PERS Plan 1

Note 1

The Alliance does not currently have any employees who are members of PERS Plan 1. However, the Alliance is responsible for its proportionate share of the PERS Plan 1 unfunded actuarial accrued liability (UAAL). The Washington State Department of Retirement Systems assesses a fee based on all covered payroll for PERS Plan 2/3 to assist in funding the UAAL.

Note 2

GASB 68 was implemented by the Alliance in 2015. As such, only information from 2015 onwards is available for this schedule.

**Required Supplementary Information**  
**Schedule of Proportionate Share of the Net Pension Liability, PERS Plan**  
**2/3**  
**As of June 30, Last 10 Fiscal Years**

|   | 2017         | 2016         | 2015         |
|---|--------------|--------------|--------------|
| Employer's proportion of the net pension liability (asset)  | 0.063476%    | 0.070435%    | 0.066152%    |
| Employer's proportionate share of the net pension liability   | \$ 2,205,488 | \$ 3,546,347 | \$ 2,363,649 |
| TOTAL   | \$ 2,205,488 | \$ 3,546,347 | \$ 2,363,649 |
| Employer's covered employee payroll   | \$ 6,223,189 | \$ 6,576,015 | \$ 5,635,191 |
| Employer's proportionate share of the net pension liability as a percentage of covered employee payroll | 35.44%       | 53.93%       | 41.94%       |
| Plan fiduciary net position as a percentage of the total pension liability                              | 90.97%       | 85.82%       | 89.20%       |

Notes To the Schedule of Proportionate Share of the Net Pension Liability, PERS Plan 2/3

Note 1

GASB 68 was implemented by the Alliance in 2015. As such, only information from 2015 onwards is available for this schedule.

**Required Supplementary Information**  
**Schedule of Employer Contributions, PERS Plan 1**  
**As of December 31, Last 10 Fiscal Years**

|  | 2017         | 2016         | 2015         |
|--|--------------|--------------|--------------|
| Statorily or contractually required contributions                                  | \$ 330,105   | \$ 294,639   | \$ 264,823   |
| Contributions in relation to the statorily or contractually required contributions | \$ 330,105   | \$ 294,639   | \$ 264,823   |
| Contribution deficiency (excess)   | \$ -         | \$ -         | \$ -         |
| Covered employer payroll   | \$ 6,749,928 | \$ 6,176,957 | \$ 6,035,694 |
| Contributions as a percentage of covered employee payroll                          | N/ A         | N/ A         | N/ A         |

Notes To the Schedule of Employer Contributions, PERS Plan 1

Note 1

The Alliance does not currently have any employees who are members of PERS Plan 1. However, the Alliance is responsible for its proportionate share of the PERS Plan 1 unfunded actuarial accrued liability (UAAL).

Note 2

GASB 68 was implemented by the Alliance in 2015. As such, only information from 2015 onwards is available for this schedule.

**Required Supplementary Information**  
**Schedule of Employer Contributions, PERS Plan 2/3**  
**As of December 31, Last 10 Fiscal Years**

|  | 2017         | 2016         | 2015         |
|--|--------------|--------------|--------------|
| Statorily or contractually required contributions                                  | \$ 459,937   | \$ 384,815   | \$ 340,055   |
| Contributions in relation to the statorily or contractually required contributions | \$ 459,937   | \$ 384,815   | \$ 340,055   |
| Contribution deficiency (excess)   | \$ -         | \$ -         | \$ -         |
| Covered employer payroll   | \$ 6,749,928 | \$ 6,176,957 | \$ 6,035,694 |
| Contributions as a percentage of covered employee payroll                          | 6.81%        | 6.23%        | 5.63%        |

Notes To the Schedule of Employer Contributions, PERS Plan 2/3

Note 1

GASB 68 was implemented by the Alliance in 2015. As such, only information from 2015 onwards is available for this schedule.

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

| <b>Contact information for the State Auditor's Office</b> |  |
|---|--|
| <b>Public Records requests</b>                            | <a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a> |
| <b>Main telephone</b>                                     | (360) 902-0370   |
| <b>Toll-free Citizen Hotline</b>                          | (866) 902-3900   |
| <b>Website</b>  | <a href="http://www.sao.wa.gov">www.sao.wa.gov</a>                     |