Washington State Auditor's Office

Troy Kelley

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Financial Statements and Federal Single Audit Report

Puget Sound Clean Air Agency

King County

For the period July 1, 2013 through June 30, 2014

Published March 30, 2015

Report No. 1013843

Washington State Auditor
Troy Kelley

March 30, 2015

Board of Directors
Puget Sound Clean Air Agency
Seattle, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Puget Sound Clean Air Agency's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

Puget Sound Clean Air Agency
King County
July 1, 2013 through June 30, 2014

The results of our audit of the Puget Sound Clean Air Agency are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

CFDA No.	Program Title
81.086	ARRA Conservation Research and Development

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The District qualified as a low-risk auditee under OMB Circular A-133.

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*

Puget Sound Clean Air Agency
King County
July 1, 2013 through June 30, 2014

Board of Directors
Puget Sound Clean Air Agency
Seattle, 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 Puget Sound Clean Air Agency, King County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 26, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

March 26, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Puget Sound Clean Air Agency
King County
July 1, 2013 through June 30, 2014

Board of Directors
Puget Sound Clean Air Agency
Seattle, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Puget Sound Clean Air Agency, King County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report 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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

March 26, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Puget Sound Clean Air Agency
King County
July 1, 2013 through June 30, 2014

Board of Directors
Puget Sound Clean Air Agency
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Puget Sound Clean Air Agency, King County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 14.

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 District'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 District'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 Puget Sound Clean Air Agency, as of June 30, 2014, 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 on pages 15 through 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Supplementary and Other Information

The Budgetary Comparison Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2015 on our consideration of the District’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 District’s internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

March 26, 2015

FINANCIAL SECTION

Puget Sound Clean Air Agency
King County
July 1, 2013 through June 30, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014
Statement of Revenues, Expenses and Changes in Net Position – 2014
Statement of Cash Flows – 2014
Notes to Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014
Budgetary Comparison Schedule – 2014
Notes to Budgetary Comparison Schedule – 2014

Management Discussion and Analysis

This section of the Puget Sound Clean Air Agency (the "Agency") financial report for the fiscal year 2014 (July 1, 2013 to June 30, 2014) provides an overview of the Agency's financial activities, highlights significant financial issues, and provides comparative data to the prior fiscal year.

Agency Background

The Puget Sound Clean Air Agency has operated under the federal Clean Air Act and the Washington State Clean Air Act for over forty years and is responsible for air pollution control in King, Pierce, Snohomish and Kitsap Counties. The Agency's main programs and associated goals are as follows:

- **Inspection / Permitting** – ensures compliance with regulatory requirements by large and small regional air pollution sources
- **Air Quality Planning, Forecasting and Monitoring** – ensures that our region is meeting federal air quality standards, our own regional health goal for $PM_{2.5}$, and other federal, state or local priorities; ensures that the Agency can provide timely and accurate air quality forecasts
- **Attainment/Wood Smoke** – reduces exposure to wood smoke thereby protecting public health
- **Transportation** – reduces diesel and greenhouse gas emissions and associated health risks in our region
- **Education and Outreach** – raises awareness of air quality issues and solutions
- **Environmental Justice** - engages with vulnerable communities to address air quality issues that concern them

Overview of the Financial Statements

The Agency's financial statements are reported as a single proprietary fund and are comprised of these schedules: 1) ***Statement of Net Position***, 2) ***Statement of Revenues, Expenses and Changes in Fund Net Position***, 3) ***Statement of Cash Flows***, and 4) ***Notes to the Financial Statements***. In addition, the Management Discussion & Analysis, Statement of Expenditures of Federal Awards (SEFA) and the Budgetary Comparison are included as supplementary schedules.

The ***Statement of Net Position*** provides information on the financial position of the Agency's assets, liabilities and net position at year-end. The change in net position may be an indicator, over time, of the financial health of the Agency. Net position is classified on this statement as:

- Net Investment in capital assets
- Restricted (the use of the funds are restricted by an external entity)
- Unrestricted (the use of the funds may be controlled by internal reserve policies)

The ***Statement of Revenues, Expenses and Changes in Fund Net Position*** presents information on all transactions that affect net position in the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows; therefore, revenues and expenses are reported for some items that will result in cash flows in future fiscal periods. Revenues are classified as either "operating", those revenues which support specific programs, or as "non-operating", those revenues which do not specifically support a program.

The ***Statement of Cash Flows*** provides information on the sources and uses of cash flows in the categories shown below:

- Cash Flows from Operating Activities
- Cash Flows from Noncapital Financing Activities
- Cash Flows from Capital and Related Financing Activities
- Cash Flows from Investing Activities

Financial Highlights

- As of June 30, 2014, the Agency's total assets of $11.0 million exceeded liabilities of $1.8 million, resulting in a net position of $9.2 million. Of the net position amount, $5.4 million was restricted for specific purposes related to grant, contract, or legislative requirements, $3.5 million was unrestricted, and $.3 million represented the net investment in capital assets.
- The Agency's net position decreased by $.6 million, or 5.9%, from the prior year. The decrease was due primarily to:
  - The return of unspent restricted reserves as a result of the early cessation of a program that was funded by the Port of Seattle; and
  - The expenditure of unrestricted reserves for enhanced enforcement and outreach in the Tacoma Pierce County Smoke Reduction Zone.
- Total operating revenues were $14.9 million, 13.3% lower than the prior year. The primary reason for this was the reduced final year of a five-year $15 million federal grant under the American Recovery and Reinvestment Act (ARRA) as the agency completed the final work in fiscal year 2014.
- Total operating expenses for the Agency were $15.2 million, a decrease of $2.3 million from fiscal year 2013. As with operating revenues, the primary factor causing this was the decrease in federal ARRA grant expenditures, most of which were pass-through payments to sub-recipients. The Agency ended the fiscal year with a loss from operations of $.3 million that was offset by income from non-operating revenues of $.2 million and resulting in a net loss (before contributions and transfers) of $.1 million.

Discussion of the Financial Statements

Statement of Net Position

An analysis of net position, the excess of assets over liabilities, may serve as a useful indicator of an agency's financial position. Table 1 lays out assets, liabilities, and summarizes the net position by net investment in capital assets (total capital assets less accumulated depreciation), restricted (restricted by external requirements), and unrestricted.

TABLE 1

COMPARATIVE STATEMENT OF NET POSITION[1]

As of June 30, 2014 and 2013

(In whole dollars)

	2014	2013	Change from 2013 to 2014
ASSETS			
Current Assets	$ 10,661,430	$ 14,303,294	$ (3,641,864)
Non-current Assets	371,572	366,256	5,315
Total Assets	11,033,001	14,669,550	(3,636,549)
LIABILITIES			
Current Liabilities	1,649,875	4,766,631	(3,116,756)
Long-term Liabilities	146,631	88,510	58,121
Total Liabilities	1,796,506	4,855,141	(3,058,635)
NET POSITION			
Net investment in capital assets	318,791	301,475	17,315
Restricted	5,402,217	5,624,571	(222,353)
Unrestricted	3,515,488	3,888,363	(372,876)
Total Net Position	**$ 9,236,496**	**$ 9,814,409**	**$ (577,914)**

1. Amounts may not add due to rounding

Current Assets
At fiscal year-end 2014, total assets, at $11.0 million, were $3.6 million lower than in the prior year amount of $14.7 million. This decrease was primarily comprised of a $1.5 million reduction in cash and cash equivalents and a $2.1 million reduction in receivables:

- The decrease in cash and cash equivalents of $1.5 million was a result of the expenditure of unrestricted reserves from prior year balances for the Smoke Reduction Zone project ($.6 million), the return of unspent restricted reserves to the Port of Seattle after the discontinuance of the At-Berth Clean Fuels program ($.5 million), and the expenditure of other restricted reserves on priority Agency programs ($.4 million);
- The $2.1 million decrease in receivables was due to the receipt of grant funds of $3.3 million accrued as receivables in FY13 for the federal ARRA Clean Cities Grant. This was offset by the increase of the accrual of various state and federal grant-related receivables at year-end FY14 of $1.2 million for work completed but not compensated until the following year.

Non-Current Assets
Non-current assets are comprised of net capital assets (total capital assets less accumulated depreciation) and restricted assets (deposits with external restrictions). The increase in non-current assets of $5,315 was the result of capital asset purchases of $91,302, mostly for monitoring technical equipment and monitoring site leasehold improvements, offset by depreciation ($73,987) and a decrease in restricted non-current assets of $12,000. See Note 5 – "Capital Assets" in the notes to the financials for more information.

Restricted non-current assets include the security deposit for the Agency's office lease and deposits for the Section 125 Flexible Spending Account - the latter was reduced when excess deposits (over the required amount) made in the prior year were returned in FY14.

Liabilities
Total liabilities at June 30, 2014 were $1.8 million, a decrease of $3.1 million from the prior year. Table 2 highlights the changes in liabilities.

TABLE 2
LIABILITIES[1]
As of June 30, 2014 and 2013
(In whole dollars)

	2014	2013	Change from 2013 to 2014
LIABILITIES			
Accounts Payable	$ 946,896	$ 4,055,719	$ (3,108,823)
Accrued Payroll Liabilities	22,005	30,292	(8,286)
Compensated Absences and Excess Compensation - Current	680,974	680,443	530
Compensated Absences - Non-current	146,631	88,510	58,121
Deferred Liability	-	177	(177)
Total Liabilities	**$ 1,796,506**	**$ 4,855,141**	**$ (3,058,635)**

1. Amounts may not add due to rounding

Similar to the decrease in accounts receivable described above, the accounts payable liabilities decreased in 2014 by $3.1 million mainly because of grant subrecipient expenses incurred in 2013 and paid in 2014.

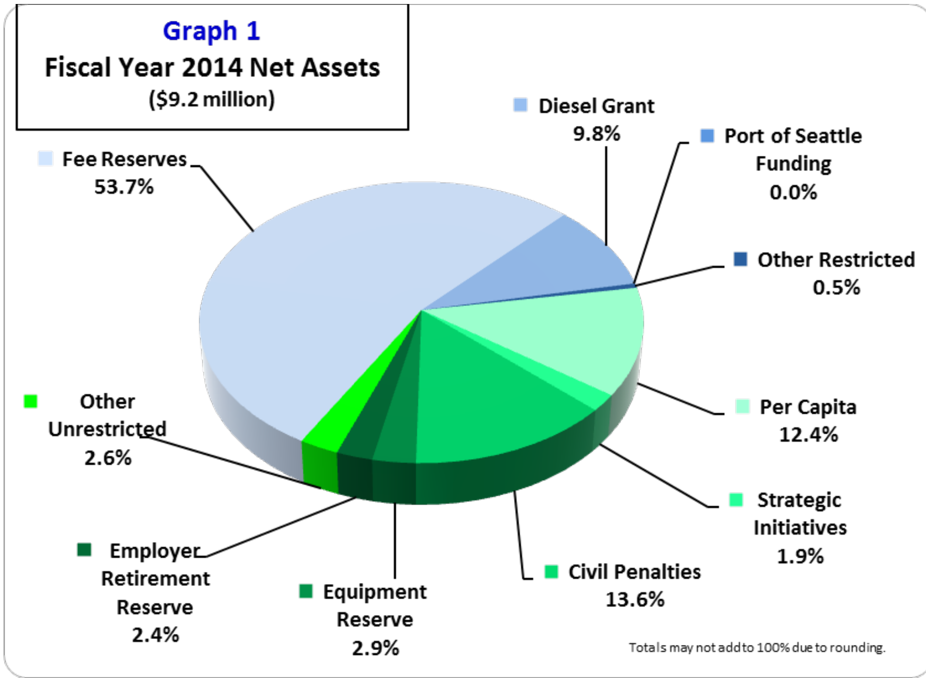
The primary factor causing the reduction ($8,286) in accrued payroll liabilities was the timing of the payment of the quarterly worker's compensation insurance. This liability was paid shortly after the end of the prior fiscal year; however, in FY14, this was paid shortly before the fiscal year-end.

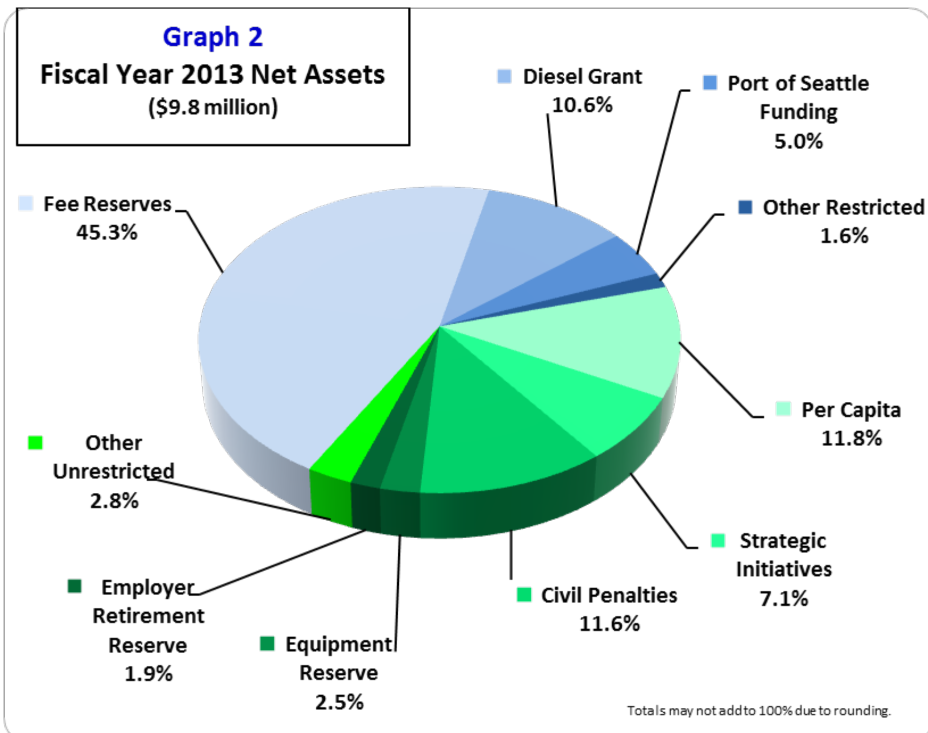
Total compensated absences and excess compensation (current and non-current) increased $58,651 from the prior year as the result of several factors. Employees used 14% less paid leave than in the prior year, causing total compensated absences to increase by $33,800. In addition, the estimate of the total excess compensation liability increased by $24,851 because of increase in paid leave hours accrued but not taken. See Note 10 – “Changes in Long-Term Liabilities” in the notes to financial statements for more information.

Net Position

At the end of fiscal year 2014, the Agency’s net position was $9.2 million, a decrease of $.6 million from the prior year. The net position section at the bottom of Table 1 summarizes the three parts of net position:

- The net investment in capital assets increased by $17,315 mainly due to the increase in assets purchased of $91,302 offset by accumulated depreciation ($73,987).
- The restricted portion of the net position includes funds whose use is externally restricted. This includes grants and contracts from federal, state and local governments, compliance fee programs governed by statutes, and contracts that provide restricted funds to the Agency. The restricted portion of net position decreased $222,353. There were several factors affecting this:
    - The return of $456,067 in unspent reserves to the Port of Seattle decreased the restricted portion of net position;
    - $128,949 in the State Diesel reserves were spent to support the Agency’s Transportation program;
    - $105,169 in reserves were spent to support the Community Odor program;
    - There were $18,539 in decreases in other restricted grants and contracts reserves;
    - An increase of $486,371 in the restricted fee reserves partially offset these decreases in net position.
- The unrestricted portion of net position comprises funds whose use is not externally restricted but which may be reserved for specific uses through the Agency’s financial policies and budgeting process. The unrestricted portion of net position decreased by $372,876 in FY14 primarily due to spending from per capita carryover and Strategic Initiative reserves to support work in the Tacoma Pierce County Smoke Reduction Zone area.
- Graphs 1 and 2 below show the relative changes in the make-up of the net position from 2013 to 2014. The blue-shaded section includes the restricted portion and the green-shaded section is made up of the unrestricted portion. The restricted portion (including their net capital portion) comprised 60.5% of total net position in 2014, up slightly from 59.2% in the prior year because the unrestricted portion decreased relatively more.
- The total unrestricted portion (green sections) decreased in size and as a percent of the total net position from 2013 to 2014, particularly as the funds were spent from Per Capita and Strategic Initiatives reserves for major initiatives in 2014. The civil penalty portion of net position increased, not only as a percent of total net position, but also in total – collections increased 19% from 2013 to $595,045 in 2014 and $138,522 was transferred to the fee programs to support staff work on specific sources. The Employer Retirement Reserve increase was due to earned interest income of $41,976 which is reserved for future increases in the Public Employees Retirement System employer rate.


Graph 1
Fiscal Year 2014 Net Assets
($9.2 million)
Diesel Grant
9.8%
Port of Seattle
Funding
0.0%
Fee Reserves
53.7%
Other Restricted
0.5%
Other
Unrestricted
2.6%
Per Capita
12.4%
Strategic
Initiatives
1.9%
Employer
Retirement
Reserve
2.4%
Equipment
Reserve
2.9%
Civil Penalties
13.6%
Totals may not add to 100% due to rounding.


Graph 2
Fiscal Year 2013 Net Assets
($9.8 million)
Diesel Grant
10.6%
Port of Seattle
Funding
5.0%
Fee Reserves
45.3%
Other Restricted
1.6%
Per Capita
11.8%
Other
Unrestricted
2.8%
Strategic
Initiatives
7.1%
Employer
Retirement
Reserve
1.9%
Civil Penalties
11.6%
Equipment
Reserve
2.5%
Totals may not add to 100% due to rounding.

Statement of Revenues, Expenses and Changes in Fund Net Position

In Table 3, we compare the operating and non-operating revenues and expenses for 2014 to the prior year. Total operating revenues in 2014 decreased by $2.3 million, total operating expenses decreased by $2.3 million, and non-operating revenues (net) decreased by $230,550. This resulted in an overall decrease in net income (before contributions and transfers) of $246,196 compared to fiscal year 2013. The decrease in net position of $577,914 was primarily in the unrestricted portion of net position.

TABLE 3

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION[1]
As of June 30, 2014 and 2013
(In whole dollars)

	2014	2013	Change from 2013 to 2014
OPERATING REVENUES			
Charges for Services	$ 5,501,372	$ 5,200,997	$ 300,375
Other Operating Revenues (grant revenues, assessment revenues)	9,421,787	11,269,484	(1,847,697)
Miscellaneous Operating Revenues	11,932	750,850	(738,918)
Total Operating Revenues	14,935,091	17,221,331	(2,286,240)
OPERATING EXPENSES			
Personnel Expenses	8,459,621	7,919,768	539,853
Work Plan Expenses	5,293,558	8,228,813	(2,935,254)
Other Operating Expenses	1,496,531	1,371,723	124,808
Total Operating Expenses	15,249,710	17,520,304	(2,270,594)
NON-OPERATING REVENUES (EXPENSES)	200,411	430,961	(230,550)
Income (Loss) Before Contributions and Transfers	(114,209)	131,988	(246,196)
Transfers In (Out)	(463,705)	-	(463,705)
CHANGE IN NET POSITION	(577,914)	131,988	(709,901)
NET ASSETS			
TOTAL NET POSITION, Beginning	9,814,409	9,682,422	131,988
TOTAL NET POSITION, Ending	$ 9,236,496	$ 9,814,409	$ (577,914)

1. Amounts may not add due to rounding

Charges for Services

In Table 4, charges for services in FY14 are detailed by revenue source and compared to FY13.

TABLE 4 CHARGES FOR SERVICES[1] As of June 30, 2014 and 2013 (In whole dollars)	2014	2013	Change from 2013 to 2014
CHARGES FOR SERVICES			
Registration Fees	$ 2,864,005	$ 2,899,971	$ (35,966)
Bad Debt - Registration Fees	(80,269)	(132,463)	52,194
Registration Fees - transfer from civil penalties	56,122	25,000	31,122
Operating Permit Fees	1,539,680	1,558,500	(18,820)
Operating Permit Fees - transfer from civil penalties	82,400	-	82,400
Notice of Construction Fees	505,364	354,773	150,591
Asbestos Fees	534,070	495,215	38,855
Total Charges for Services	$ 5,501,372	$ 5,200,997	$ 300,375

1. Amounts may not add due to rounding

Total charges for services increased by $300,375 from the prior year due to the following increases and decreases in fee program activity:

- A $150,591 increase in Notice of Construction fee revenues and a $38,855 increase in Asbestos fee revenues from increased permitting activities in these areas;
- A crediting of $31,122 to the Registration program and $82,400 for work performed by Agency staff on registered and operating permit sources from civil penalty collections;
- A net loss of one Operating Permit source resulting in a decrease of $18,820 in fees;
- A decrease in Registration fees of $35,966 due to lower activity; and
- A smaller increase in the allowance for doubtful accounts of $52,194

Other Revenues (Operating)

Table 5 shows the detailed revenue categories included in other revenues (operating) on Table 3. These include grant, contract, assessment (non-tax) and dues revenues classified as operating revenues.

TABLE 5 TOTAL OTHER OPERATING REVENUES[1] July 1 to June 30, 2014 and 2013 (In whole dollars)	2014	2013	Change from 2013 to 2014
Federal Grants	$ 4,018,443	$ 6,521,373	$ (2,502,930)
State Grants	2,967,274	2,486,859	480,416
Contracts	275,116	108,234	166,882
Supplemental Income (Per Capita)	2,095,854	2,080,768	15,086
Clean Cities Coalition Revenues	65,100	72,250	(7,150)
Total Other Operating Revenues	$ 9,421,787	$ 11,269,484	$ (1,847,697)

1. Amounts may not add due to rounding

Other revenues (operating) decreased $1.8 million in FY14 because of the reduction in federal grant revenues, particularly the ARRA grant that was ending in 2014. As shown in Table 5, this was partially offset by increases in state grants from the Washington Department of Ecology for woodstove removal/replacement and for emission reductions devices on emergency vehicles. Contract revenues also increased as the Port of Seattle funded new port-related emissions reduction projects.

Supplemental income (per capita) is based on an annual per capita assessment charged to each of the four counties (Pierce, King, Kitsap and Snohomish) per RCW 70.94. The assessed rate has remained at the same level as the previous five years ($.56 per capita) and is adopted annually by the Agency's Board of Directors. In 2014, these revenues increased .7% to $2.1 million solely due to the overall population increase in the four-county jurisdiction.

Clean Cities Coalition revenues decreased 9.9% because of a reduction in member dues and sponsorships. The Agency manages the Clean Cities Coalition and collects dues and sponsorships from members and contract revenues from the federal Department of Energy to support the coalition work as part of the Agency's Transportation program.

Miscellaneous Operating Revenues

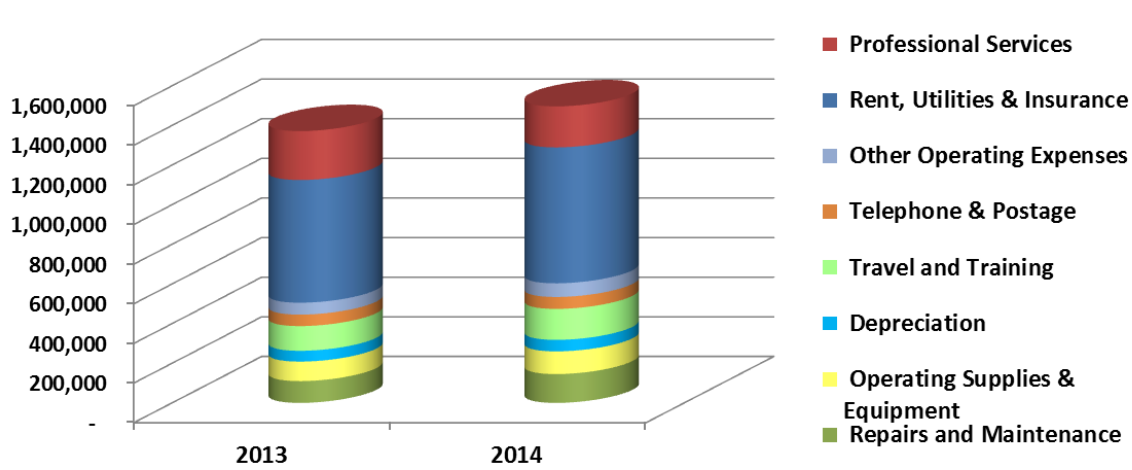
Miscellaneous operating revenues (Table 3) decreased by $738,918, from $750,850 in 2013, because the Agency no longer delivered a program (At-Berth Clean Fuels) with the Port of Seattle. Other miscellaneous revenues in 2014 of $11,932 included reimbursements, public disclosure fees, jury duty fees, and miscellaneous sponsorships for a workshop.

Operating Expenses

The main factor causing the $2.3 million decline in operating expenses (Table 3) was the decrease in ARRA grant work plan expenditures (pass-through payments to sub recipients). Personnel expenses increased $.5 million due to the increase in full-time equivalent employees from 70.3 to 73.9 as program staffs were added to support the Smoke Reduction Zone and the drayage truck replacement (ScRAPS) programs. Other operating expenses increased $.1 million primarily as the result of the scheduled office lease rate increases and the increases in maintenance and utilities. Graph 3 (below) shows the detail of other operating expenses. In addition to rent, maintenance and utility increases, travel and training and repairs and maintenance for the monitoring sites increased in FY14.

Graph 3

Other Operating Expenses by Category - FY14 v. FY13



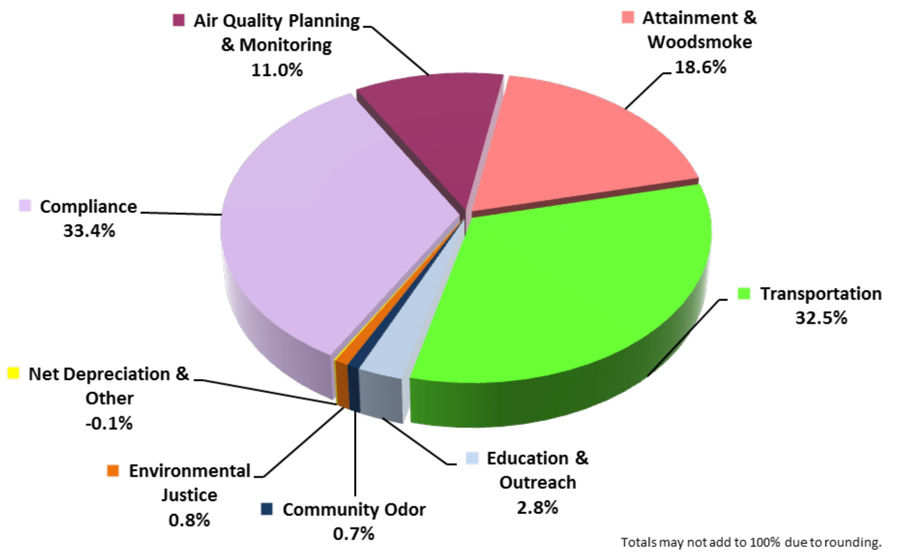
Graphs 4 and 5 show the change in program emphasis from FY13 to FY14. While the Attainment and Woodsmoke program's work in the Tacoma Pierce County Smoke Reduction Zone continues to be a significant portion (18.6%) of overall program effort, expenditures decreased from $3.5 million in FY13 to $2.8 million in FY14. This was due to lower burn ban enforcement activity in FY14 resulting from favorable weather.

The Transportation program expenditures decreased from $7.0 million in FY13 to $5.0 million in FY14 due to the reduction of large non-recurring federal grants. As the federal grants declined in 2014, the Agency has continued to be awarded state grants and contracts but at lower individual amounts. The Compliance program (permitting and inspection) is now the largest portion (33.4%) of total program costs.

Graph 4

Fiscal Year 2014 Operating Expenses by Program

($15.2 million)

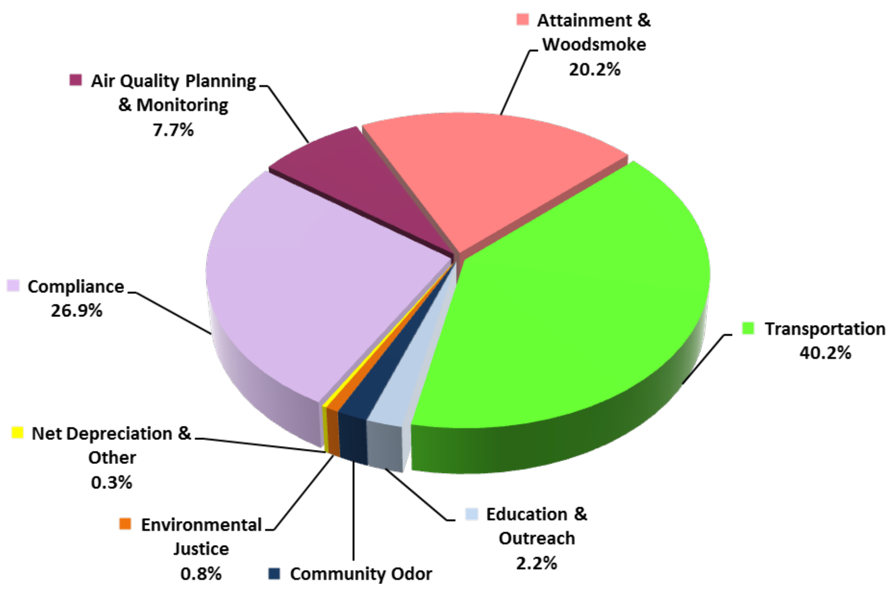


Totals may not add to 100% due to rounding.

Graph 5

Fiscal Year 2013 Operating Expenses by Program

($17.5 million)



Totals may not add to 100% due to rounding.

Non-Operating Revenues (Expenses

Table 6 details the non-operating revenues and expenses that comprise the net non-operating revenue (expense) line. This is made up of investment earnings and losses (realized and unrealized) and civil penalty collections and expenses.

TABLE 6

TOTAL NON-OPERATING REVENUES (EXPENSES)[1]

July 1 to June 30, 2014 and 2013

(In whole dollars)

	2014	2013	Change from 2013 to 2014
Interest Income	$ 41,976	$ 50,132	$ (8,156)
Realized Gains/Losses - Investment	1	90,414	(90,413)
Unrealized Gains/Losses - Investment	39,999	(43,695)	83,695
Investment Revenue	81,977	96,850	(14,874)
Civil Penalty Collections	456,523	476,657	(20,134)
Civil Penalty Expenses	(338,088)	(142,546)	(195,542)
Civil Penalty Revenues, net of expenses	118,434	334,111	(215,676)
Total Non-Operating Revenues (Expenses)	$ 200,411	$ 430,961	$ (230,550)

1. Amounts may not add due to rounding

Total non-operating revenues decreased by $230,550 from 2013 to 2014 primarily because of increased civil penalty expenses in 2014 to support enforcement activities in the Tacoma Pierce County Smoke Reduction Zone. In the previous year, per capita assessment revenues funded most of the enforcement activities.

Interest income decreased mainly because of the decrease in Agency reserve balances in the King County Investment Pool ("Pool"). The decline in the average yield from .55% in 2013 to .49% in 2014 also contributed to the decrease. In 2013, the Pool distributed settlements on impaired investments that resulted in the Agency receiving $90,414 – since this completed most of the settlement actions, the payout in 2014 was minor. The unrealized loss of $43,695 in 2013 was caused by market reactions to anticipated federal reserve actions, resulting in a decline in the market values of investments in the Pool. In 2014, the market values recovered and the Agency recognized an unrealized gain of $39,999. See Note 3 – "Cash and Investments" in the notes to financial statements for more information.

Financial Contact

The Agency's financial statements are designed to provide users with a general overview of the Agency's financial performance as well as to be accountable to the public, funders and partners. If you have a question about the report, please contact the Puget Sound Clean Air Agency, Attention: Finance, 1904 Third Avenue, Suite 105, Seattle, WA 98101 or email (finance@pscleanair.org).

PUGET SOUND CLEAN AIR AGENCY
STATEMENT OF NET POSITION
June 30, 2014
(In whole dollars)

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 7,707,196
Accounts Receivable (Net)	2,826,981
Prepaids	127,253
Total Current Assets	**10,661,430**
Non-Current Assets:	
Restricted Assets (Deposits)	52,781
Capital Assets being Depreciated:	
Equipment & Leasehold Improvements	613,579
Less Accumulated Depreciation	(294,788)
Total Capital Assets (Net)	318,791
Total Non-Current Assets	**371,572**
TOTAL ASSETS	**11,033,001**
LIABILITIES	
Current Liabilities:	
Accounts Payable	946,896
Accrued Payroll Liabilities	22,005
Compensated Absences and Excess Compensation	680,974
Total Current Liabilities	**1,649,875**
Non-Current Liabilities:	
Compensated Absences	146,631
Total Non-Current Liabilities	**146,631**
Total Liabilities	**1,796,506**
NET POSITION	
Net Investment in Capital Assets	318,791
Restricted (grant, legal, and contract requirements)	5,402,217
Unrestricted	3,515,488
TOTAL NET POSITION	**$ 9,236,496**

The notes to the financial statements are an integral part of this statement.

MCAG No. 1024

PUGET SOUND CLEAN AIR AGENCY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

For the Year ended June 30, 2014

(In whole dollars)

OPERATING REVENUES:		
Charges for Services	$	5,501,372
Other Operating Revenues (grant revenues, assessment revenues)		9,421,787
Miscellaneous		11,932
Total Operating Revenues		**14,935,091**
OPERATING EXPENSES:		
Salaries and Wages		6,223,458
Employee Benefits		2,236,164
Professional Services		207,223
Repairs and Maintenance		145,323
Operating Expenses and Supplies		48,672
Rentals and Utilities		611,093
Insurance		74,697
Travel, Training and Meeting Expenses		156,451
Telephone and Postage		60,076
Legal Expenses		15,150
Printing		11,726
Taxes and Bank Charges		42,209
Work Plans		5,293,558
Non-Capitalized Assets		66,039
Depreciation		57,871
Total Operating Expenses		**15,249,710**
OPERATING INCOME (LOSS)	**$**	**(314,619)**
NON-OPERATING REVENUES (EXPENSES):		
Interest and Investment Revenue		81,977
Miscellaneous Revenues (net)		118,434
Total Non-Operating Revenues (Expenses)		**200,411**
Income (Loss) Before Contributions and Transfers		**(114,209)**
Transfers In (Out)		(463,705)
Changes in Net Position		**(577,914)**
TOTAL NET POSITION - Beginning	**$**	**9,814,409**
TOTAL NET POSITION - Ending	**$**	**9,236,496**

The notes to the financial statements are an integral part of this statement.

PUGET SOUND CLEAN AIR AGENCY
STATEMENT OF CASH FLOWS
For the Year ended June 30, 2014
(In whole dollars)

CASH FLOW FROM OPERATING ACTIVITIES:	
Receipts from customers	$ 17,062,566
Payment to suppliers	9,859,197
Payment to employees	8,384,405
Net cash provided (used) by operating activities	**(1,181,035)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating subsidies and transfers to other funds	(303,597)
Net cash provided (used) by noncapital financing activities	**(303,597)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of capital assets	(97,325)
Net cash provided (used) by capital and related financing activities	**(97,325)**
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and dividends	41,977
Net cash provided by investing activities	**41,977**
Net Increase (Decrease) in cash and cash equivalents	**(1,539,980)**
Balances - beginning of the year	**9,247,175**
Balances - end of year	**$ 7,707,196**

The notes to the financial statements are an integral part of this statement.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Puget Sound Clean Air Agency (the Agency) have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Agency uses the revenue and expenditure classifications contained in the *Budgeting Accounting and Reporting System* (BARS) manual. The manual is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. The significant accounting policies are described below.

a. Reporting Entity

The Agency was incorporated on June 23, 1967 and operates under the laws of the State of Washington applicable to a municipal corporation. The Agency is a special purpose district and provides pollution control services. There are no component units included in the Agency's financial reporting.

b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Agency uses the Budgeting, Accounting, and Reporting System (BARS) manual prescribed by the State Auditor for a general guideline. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Agency reports the financial activities of the Agency as one proprietary fund. This election was made after reviewing materials from the state auditor and after considering the financial reporting options for special purpose districts.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and proprietary funds, subject to this same limitation. The Agency has elected to follow subsequent private-sector guidance.

Proprietary Fund
Generally Accepted Accounting Principles (GAAP) require that proprietary funds distinguish between operating and non-operating revenues and expenses. The Agency has used the following criteria for identifying operating and non-operating incomes, expenses and cash flows:

- Operating - These incomes, expenses and cash flows are fees for services, contracts for services, and payments to support specific activities or programs considered to be operating activities of the Agency. Grants and similar items are recognized as operating revenues when all eligibility requirements have been met. This category includes the fee programs (asbestos, notice of construction, registration and operating permits), per capita fee assessments, all federal and state grants which include specific work or programs, contracts with the State of Washington and the Port of Seattle, and other arrangements for services.

- Non-operating – These incomes, expenses and cash flows include all other items that are not associated directly with a program and are not included in the annual budget as a source of funds to support general operations. This category includes interest income net of investment management fees, and civil penalties net of related expenses.

c. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents
It is the Agency's policy to invest all temporary cash surpluses. Cash and Cash Equivalents consist of the agency's cash and investments held in the King County Investment Pool (Pool) and a small amount of petty cash. King County acts as the Agency's treasurer and invests all temporary cash surpluses. At June 30, 2014, the treasurer was holding a fair value amount of $7,859,146 in residual investments of reserves. The amount included as Cash and Cash Equivalents on the Statement of Net Position, and as Net Cash on the Statement of Cash Flows, is the booked amount of $7,707,196. See Note 3 for the detail of investments and the reconciliation between the fair value and the booked amounts.

   Interest earnings are allocated to the Employer Retirement Reserve Fund as a reserve for anticipated future expense increases in employers' costs for pension plans with the Public Employees Retirement System Plans 1, 2, and 3.

2. Receivables
Accounts receivable consists of amounts owed from private individuals, governments or other organizations for goods or services, including amounts owed for which billings have been prepared but the cash has not been received. Receivables related to the Registration Fee program are reported net of an allowance for uncollectible accounts.

3. Capital Assets
The Agency uses GAAP accounting and capitalizes all long-lived assets valued at greater than $5,000 with a useful life greater than one year. Capital assets are depreciated on a straight-line basis over their applicable useful lives.

4. Accounts Payable
Accounts Payable represents goods and services received as of June 30, 2014, but not yet paid.

5. Compensated Absences and Excess Compensation Liabilities
Compensated absences are absences for which employees will be paid, such as vacation, compensatory leave, and sick leave.

   Excess Compensation, for members of the Public Employees Retirement System (PERS) Plan 1, is a portion of compensation used for pension benefit calculation for which the extra benefit derived must be paid by the Agency rather than by the retirement system

   Vacation leave may be accumulated up to twice the employee's annual accrual days. Vacation accrual in excess of twice the employee's annual accrual is paid in cash after the end of each fiscal year. Upon separation from employment, the employee receives payment for any unused vacation.

   Sick leave may be accumulated indefinitely. An employee separated from service with the Agency due to death, retirement, or disability is compensated in an amount equal to thirty-three and one-third percent of any unused sick leave but not to exceed four hundred hours.

   Vacation, sick leave, and compensatory time are accrued at 100% of the total estimated liability as of the fiscal year end. The accrued liability is reviewed and adjusted monthly. In addition, an estimate of the amounts that will be owed, upon retirement, to PERS for employees in the PERS 1 plan is accrued as Excess Compensation. At the end of fiscal year 2014, the total Compensated Absences and Excess Compensation Liability was $827,605.

6. Short- and Long-Term Debt
   The Agency has no general, revenue, or assessment short or long-term debt.

7. Prior Period Adjustments
   There are no adjustments related to prior periods.

8. Other Postemployment (OPEB) Benefit Plans
   The Agency has no postemployment benefit plans.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

NOTE 3 – CASH AND INVESTMENTS

Under the requirements of the Washington State Clean Air Act, one county within our four-county jurisdiction (King, Pierce, Kitsap and Snohomish Counties) is to act as the Agency's treasurer. Since the Agency's inception, King County has managed the investment of all of the Agency's funds that are not required for immediate expenditure through the King County Investment Pool (Pool). Table 1 below shows the distribution of investments by type and the total book value of investments at the end of fiscal years 2014 and 2013:

Table 1- Note 3	June 30, 2014		June 30, 2013	
Portfolio - Distribution	**%**	**Holdings**	**%**	**Holdings**
U.S. Agency Securities	41.66%	$3,264,417	49.76%	$4,670,527
Commercial Paper	0.87%	67,984.54	0.00%	-
U.S. Agency Mortgage-backed Securities	0.17%	13,230.21	0.26%	24,404
Repurchase Agreements	4.07%	318,943.19	0.00%	0
Treasury Securities	37.27%	2,920,485.31	27.77%	2,606,522
CD's & Overnight Deposits	0.00%	-	0.00%	0
Local Government Investment Pool	15.96%	1,250,401.47	22.21%	2,084,654
Reverse Repurchase Agreements	0.00%	-	0.00%	0
Subtotal - Unimpaired Investments	100.00%	7,835,462	100.00%	9,386,107
Impaired Investments		33,149		38,722
Total Investments Held in the King County Pool		**$7,868,611**		**$9,424,829**

At June 30, 2014, the book value of all investments held in the pool was $7,868,611, a 16.5% decrease from the prior year. The decrease was due not only to the return of unspent restricted cash related to a discontinued program with the Port of Seattle but also to the expenditure of unrestricted reserves to support the Tacoma pierce County Smoke Reduction program. In 2014, investments in commercial paper, treasury securities and repurchase agreements increased while holdings in U.S. Agency Securities and the state's Local Government Investment Pool decreased. During the year, King County treasury management added commercial paper and repurchase agreement investments to expand the diversity and increase the yield of the pool.

At the end of each fiscal year, the Agency also records unrealized gains and losses in the unimpaired and impaired investments based on investment fair value data provided by the Treasurer (King County). Table 2 shows the change in the market value of investments as of June 30, 2014 compared to the prior year:

Table 2 - Note 3	**FY14**				**FY13**		
Fair Value of Investments	**Book Value**	**Fair Value Ratio**	**Fair Value**		**Book Value**	**Fair Value Ratio**	**Fair Value**
Unimpaired Investments	$ 7,835,462	*100.05%*	$ 7,839,380		9,386,107	*99.67%*	9,355,133
Impaired Investments	33,149	*59.63%*	19,766		38,722	*52.25%*	20,232
Total Investments	**$7,868,611**		**$7,859,146**		**$9,424,829**		**$9,375,365**

In early 2014, the financial markets recovered from the drop in market values at the end of FY13 and, as evidenced by the increases in the fair value ratios in Table 2 above, resulted in the recognition of a net unrealized gain of $40,000.

Impaired Investments

Impaired commercial paper investments are .3% of the Pool's total assets. As of June 30, 2014, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The Agency's share of the Impaired Pool principal is $33,149 and the fair value of these investments is $19,766.

Interest Rate Risk

As of June 30, 2014, the Pool's average duration was 1.32 years, a slight decline from the prior year. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk

As of June 30, 2014, the Agency's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

Reconciliation to Financial Statements

The reconciliation between the total fair value of investments held in the Pool shown above and the booked amount of Cash and Cash Equivalents is shown below:

Table 3 - Note 3			
Reconciliation to Financial Statements	**June 30, 2014**	**June 30, 2013**	**June 30, 2012**
Fair Value of Investments	$7,859,146	$9,375,365	$9,314,389
Interest Earned but not received	3,026	3,825	3,965
Reconciliation items - timing	3,077	4,476	3,230
Outstanding Checks - not cleared	(158,157)	(136,594)	(194,991)
Petty Cash	103	103	103
Cash and Cash Equivalents - Financial Statements	**$7,707,196**	**$9,247,175**	**$9,126,695**

NOTE 4 – RECEIVABLES

Total receivables (net) at June 30, 2014 were $2,826,981, a 43% decrease from the prior year resulting from the collection of a large receivable related to a federal ARRA grant (the corresponding payable for this grant was paid down in 2014). Each year, Agency staffs review the collection status of fee billings and adjust the allowance for uncollectible accounts accordingly. At June 30, 2014, the allowance for uncollectible accounts ($367,521) included only registration fees and was a 24% increase from the prior year. The increase in the allowance was due to the lower collection experience in 2014 as compared to 2013 for registration fees.

Receivables	June 30, 2014	June 30, 2013
Registration Base and Late Fees	$ 508,138	$ 437,737
Allowance for Doubtful Accounts	(367,521)	(295,995)
Per Capita Fees	552,587	633,247
Grants	2,133,777	4,165,544
Operating Permits		14,100
Total Receivables (Net)	$ 2,826,981	$ 4,954,633

NOTE 5 – CAPITAL ASSETS

Major expenses for capital assets, including major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred while all capital assets are valued at historical cost. The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives ranging from three to ten years.

Capital assets are classified in the following categories and have useful lives as shown below:

Category	Life (months)
Vehicles	120
Computers (48 month life)	48
Computers (36 month life)	36
Leasehold Improvements	Term of Leases
Monitoring, Lab, Shop and Field Equipment	120

In fiscal year 2014, the Agency acquired $97,325 in capital assets and depreciated $74,389 of total capital assets. The balance in capital assets at June 30, 2014 is $613,579, with $294,788 of accumulated depreciation, yielding net capital assets at June 30, 2014 of $318,790. Total depreciation expense for FY14 was $74,389, $57,871 related to operating expenses and $16,518 related to non-operating expenses.

The schedule of assets and accumulated depreciation is shown below:

	Balance at June 30, 2013	Increases	Decreases	Balance at June 30, 2014
Capital assets, being depreciated:				
Vehicles	$ 104,906			$ 104,906
Computers	91,335			91,335
Leasehold Improvements	29,732	23,522		53,254
Monitoring, Lab, Shop and Field Equipm	296,303	73,803	6,023	364,084
Total Capital Assets Being Depreciated	522,277	97,325	6,023	613,579
Less accumulated depreciation for:				
Vehicles	42,198	10,491		52,689
Computers	58,364	22,828		81,192
Leasehold Improvements	15,922	7,825		23,747
Monitoring, Lab, Shop and Field Equipm	104,317	33,246	402	137,162
Total Accumulated Depreciation	220,801	74,389	402	294,788
Total Capital Assets Being Depreciated,	$ 301,476	$ 22,937	$ 5,621	$ 318,791

NOTE 6 – PENSION PLANS

Substantially all Agency 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 retirement plans. 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. The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27.*

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.
PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.
PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012[1]:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	**263,347**

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2

[1] GASB Statement 27 does not require the number of participating employers and members to be presented in the notes to the financial statements. The information has been provided here so it can be included in the notes if desired.

and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of June 30, 2014, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%	9.21%	9.21%**
Employee	6.00%	4.92%	***

*The employer rate includes the employer administrative expense fee currently set at 0.18%.
**Plan 3 defined benefit portion only.
***Variable from a 5.0% minimum to 15.0% maximum based on the rate selected by the PERS Plan 3 member

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** Plan 3 defined benefit portion only.
***Minimum rate.

Both Agency and the employees made the required contributions. The Agency's required contributions for the years ended June 30th were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
6/30/2014	$7,348	$386,884	$168,369
6/30/2013	$5,735	$302,701	$113,688
6/30/2012	$5,539	$285,970	$107,204
6/30/2011	$72,729	$202,403	$79,887

NOTE 7 – RISK MANAGEMENT

The agency self-insures unemployment compensation for all of its employees. Actual employee claims are paid by the State of Washington, Department of Employment Security and then reimbursed by the Agency. The agency also maintained a reserve of $28,086 for potential unemployment compensation costs as of June 30, 2014. In addition, the agency self-insures for short-term disability for its employees and uses a third-party administrator to manage the program. Total FY14 claims for these self-insured risks totaled $26,085.

For property and liability risk insurance, the Agency is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2013, there are 486 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, and business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis:

$1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on liability loss;
$250,000 deductible on property loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on property loss. Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

NOTE 8 - COMPLIANCE AND ENFORCEMENT AGENCY

The Agency is a compliance and enforcement agency with numerous actions in Superior, Appellate, and the Supreme Court of the State of Washington, on cases involving the enforcement of the Washington State Clean Air Act and the regulations of the Agency. There are also cases that are pending before the Administrative Tribunal, entitled the Pollution Control Hearings Board, all involving enforcement. These cases are not causes of action against the Agency, but are enforcement actions. A listing of the open and closed cases is available from the Agency's legal department.

NOTE 9 – LEASES

The Agency is committed under various leases for a total of $1,587,891 beyond June 30, 2014. These leases are considered operating leases for accounting purposes. Total lease expenses for the year ended June 30, 2014 amounted to $604,633.

Property Leases

The Agency has one office location (1904 Third Avenue, Suite 105, Seattle, WA 98101) which it leases under a non-cancellable operating lease. In addition to the scheduled lease obligations shown in the table below, the lease includes escalation provisions for additional rent adjustments based on the janitorial hourly labor rates, the Consumer Price Index, the cost of electricity and annual increases in property taxes. The rent adjustments are revised once per year based on the change in this data from the base year of 2007. Future minimum rental commitments, excluding escalation provisions, are as follows:

Lessor	Time Period	Amount
	07/01/2014-09/30/2014	$ 125,400
	10/01/2014-09/30/2014	520,884
	10/01/2015-01/31/2017	720,240
Clise Properties, Inc.	**Total**	**$ 1,366,524**

In addition to the office space, the Agency leases storage space in the same building location and from the same lessor. The remaining amount on this portion of the lease is $28,055 for the period from July 1, 2014 through January 31, 2017.

Lessor	Time Period	Amount
	7/1/2014-1/31/2017	$ 28,055
Clise Properties, Inc. - Storage	**Total**	**$ 28,055**

The Agency leases additional property within its four-county jurisdiction for its air quality data-collection monitoring sites and future commitments are shown below:

Lessor	Term	Amount
Bremmerton School District	12/1/2011-11/30/2014	$ 100
Darrington School District	4/1/2012-3/31/2017	3,200
General Services Administration	12/1/2013-11/30/2018	22,525
Housing Resource Group	4/1/2012-8/31/2014	300
Madison Lake Forrest Park	11/1/2010-10/31/2015	6,500
Marysville School District	7/1/2010-6/30/2015	3,000
Puget Sound Energy	6/1/2010-5/31/2015	848
Sound Transit	7/1/2014-6/30/2015	1,933
TEC Church	5/1/2013-4/30/2024	23,600
Total		**$ 62,006**

Equipment Leases

The Agency leases various office equipment under the operating leases – future commitments are listed below:

Lessor/Equipment	Term	Amount
Pitney Bowes	7/1/2014-6/30/2015	$ 1,236
Pacific Automation/US Bank	5/1/2014-4/30/2019	130,070
Total		**$ 131,306**

NOTE 10 – CHANGES IN LONG-TERM LIABILITIES

At June 30, 2014, long-term liabilities increased $58,652 from the prior year due to an increase in accrued unused paid leave and a change in the calculation of unused sick time used to calculate excess compensation for PERS 1 employees at retirement. At the end of each fiscal year, the Agency allocates the total compensated absences liability between current and non-current liabilities based on a review of the average employee usage and cash out of vacation, sick and compensatory time using a three year rolling average.

	June 30, 2014	June 30, 2013	Change
Compensated Absences (Current)	$ 604,830	$ 629,151	$ (24,321)
Excess Compensation (Current)	$ 76,143	$ 51,292	$ 24,852
Compensated Absences (Non-current)	$ 146,631	$ 88,510	$ 58,121
Total Compensated Absences and Excess Compensation	$ 827,605	$ 768,953	$ 58,652

NOTE 11 – CONTINGENCIES AND LITIGATIONS

The Agency 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 Agency will have to make payment. In the opinion of management, the Agency's self-insurance reserves and insurance policies are adequate to pay for all known or pending claims.

The Agency 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 expenditures disallowed under the terms of the grants. Agency management believes that such disallowances, if any, will be immaterial

NOTE 12 – RESTRICTED NET POSITION

The Restricted component of Net Position consists of funds whose use is restricted by state law (certain fee programs), federal and state grants, and contracts with external entities. At June 30, 2014, Agency restricted net position was $5,402,217, an increase of $222,354 from the prior year.

NOTE 13 – CHANGE IN BASIS OF ACCOUNTING

There were no changes in the basis of accounting from the prior fiscal year.

NOTE 14 – SUBSEQUENT EVENTS

In 2011, the Washington Environmental Council and Sierra Club filed a lawsuit in federal court against the Department of Ecology, Northwest Clean Air Agency and the Puget Sound Clean Air Agency. The lawsuit alleges the agencies are required to regulate greenhouse gas emissions from the five petroleum refineries in Washington through Reasonably Available Control Technology (RACT) and the Washington State Implementation Plan (SIP) and are not meeting their obligations to do so. The Western States Petroleum Association is an intervenor in the case. Motions were filed in federal district court, and as a result of the motions, the federal judge ruled against the agencies on most of the issues. The agencies appealed the judge's ruling to the Ninth Circuit Court of Appeals, and the Court ruled in favor of the agencies. Briefs for rehearing have been filed with the Ninth Circuit Court of Appeals and are under review. The financial impact of this action on the agency is indeterminate. This case is now closed.

Puget Sound Clean Air Agency
Schedule of Expenditures of Federal Awards
Fiscal Year 2014 (July 1, 2013 to June 30, 2014)

FEDERAL EXPENDITURES

Federal Agency/Pass Through Agency	Federal Program Name	CFDA Number	Grant Number	Grant Title	Expenditures: From Pass Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Foot-note Ref.
Environmental Protection Agency, Region 10/Pass-Through From Washington State Dept. of Ecology	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	AQPM25-2014-PSCAA-00002	PM2.5 Monitoring - For the period 4/1/13 to 6/30/14 (Sec. 103)	$ 20,135.57	$ -	$ 20,135.57	2
Environmental Protection Agency, Region 10/Pass-Through From Washington State Dept. of Ecology	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	G1300107	PM2.5 Monitoring - For the period 4/1/13 to 6/30/14 (Sec. 103)	$ 63,421.83	$ -	$ 63,421.83	2
Subtotal Federal Awards Expended for CFDA 66.034					$ 83,557.40	$ -	$ 83,557.40	
Environmental Protection Agency, Region 10	National Clean Diesel Emissions Reduction Program	66.039	DE00J66501	Sound Transit Locomotive Upgrade Project	$ -	$ 1,146,654.67	$ 1,146,654.67	2,7,8
Environmental Protection Agency, Region 10	National Clean Diesel Emissions Reduction Program	66.039	DE00J81601	LNG Truck Replacement Project	$ -	$ 28,034.80	$ 28,034.80	2,8
Environmental Protection Agency, Region 10	National Clean Diesel Emissions Reduction Program	66.039	DE00J44801	Harley Marine-EagleTugboat Repower	$ -	$ 267,797.34	$ 267,797.34	2,7,8
Subtotal Federal Awards Expended for CFDA 66.039					$ -	$ 1,442,486.81	$ 1,442,486.81	
Environmental Protection Agency, Region 10 /Washington State Dept. of Ecology	Federal Performance Partnership Grants, Sec. 105 of the Clean Air Act	66.605	G1400163	Federal Performance Partnership Core Grant (Sec. 105)	$ 926,008.61	$ -	$ 926,008.61	2
Washington State Dept of Ecology, Air Quality Program	Federal Performance Partnership Grant CAP-C, Section 105 of the Clean Air Act	66.605	G1400019	Tulalip Tribe Air Monitoring Services	$ 15,323.16	$ -	$ 15,323.16	2,8
Subtotal Federal Awards Expended for CFDA 66.605					$ 941,331.77	$ -	$ 941,331.77	
Environmental Protection Agency/Washington State Dept. of Ecology, Water Quality Program	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	G1400205	Wood Stove Retrofit Open Competition	$ 21,719.08		$ 21,719.08	2,8
Environmental Protection Agency/Washington State Dept. of Ecology, Water Quality Program	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	G1200455	Expansion of the Wood Stove Removal Program - P.A.H.	$ 199,004.48		$ 199,004.48	2,8
Subtotal Federal Awards Expended for CFDA 66.123					$ 220,723.56	$ -	$ 220,723.56	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

FEDERAL EXPENDITURES

Federal Agency/Pass Through Agency	Federal Program Name	CFDA Number	Grant Number	Grant Title	Expenditures: From Pass Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Foot-note Ref.
U S Dept of Energy, National Energy Technology Laboratory	ARRA-Conservation Research and Development	81.086	DEEE0002020	ARRA-Puget Sound Clean Cities Coalition Petroleum Reduction Project		$ 1,062,710.93	$ 1,062,710.93	2,7,8,9
U S Dept of Transportation/Port of Seattle	Federal-Aid Highway Planning, Federal Lands Highway Program	20.205	2014-052 (I-00317929)	Drayage Truck Replacement Program	$ 118,764.64		$ 118,764.64	2,8
U.S. Department of Transportation (MARAD)	Air Emissions and Energy Initiative	20.817	DTMA1H12005	Air Emission & Energy Initiative-Tugboat Repower		$ 143,356.70	$ 143,356.70	2,7,8
Subtotal Federal Awards Expended for All Other CFDA Numbers					$ 118,764.64	$ 1,206,067.63	$ 1,324,832.27	
Total All Federal Award Expenditures					$ 1,364,377.37	$ 2,648,554.44	$ 4,012,931.81	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

Notes To The Schedule of Expenditures of Federal Awards

Fiscal Year 2014 (July 1, 2013 through June 30, 2014)

NOTE 1 – BASIS OF ACCOUNTING

For Federal expenditures, this schedule is prepared on the same basis of accounting as the Puget Sound Clean Air Agency's financial statements. The Agency uses the accrual basis of accounting for Proprietary funds.

NOTE 2 – PROGRAM COSTS

For Federal expenditures, the amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including matching funds from the Agency or beneficiaries, may be higher than the expenditure amounts shown on the schedule.

NOTE 3 – REVOLVING LOAN – PROGRAM INCOME

The Agency does not have a revolving loan program.

NOTE 4 – FEDERAL LOANS

The Agency does not have any federal loans.

NOTE 5 – NONCASH AWARDS

The Agency has not received any noncash awards.

NOTE 6 – NONCASH AWARDS – EQUIPMENT

The Agency has not received equipment and supplies that were purchased by other agencies with Federal money.

NOTE 7 – AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount of Federal Awards expended is $2,447,742.50 that has been passed through to sub recipients who administered the projects. Distribution of sub recipient payments is as follows:

Grant No.	Grant Title	Amount
DE00J66501	Sound Transit Locomotive Engine Replacement	$ 1,121,210.00
DTMA1H12005	MARAD-Tugboat Repower	$ 44,745.00
DE00J44801	Harley Marine Tugboat Repower	$ 250,448.50
DEEE0002020	Clean Cities Petroleum Reduction	$ 1,031,339.00
	Total FY 2014 Sub-recipients	$ 2,447,742.50

Notes To The Schedule of Expenditures of Federal Awards

Fiscal Year 2014 (July 1, 2013 through June 30, 2014)

NOTE 8 – INDIRECT COST RATE

The amount expended includes $118,067.60 claimed as an indirect cost recovery distributed as follows:

Grant No.	Description	Indirect Rate	Indirect Cost Recovery	
DEEE0002020	ARRA-Clean Cities Coalition Petroleum Reduction	32.47%	$	5,146.59
DE00J44801	Harley Marine Tugboat Repower	53.13%	$	6,019.36
DE00J66501	Sound Transit Locomotive Upgrade Project	57.88%	$	9,328.20
DE00J81601	LNG Truck Replacement Project	57.88%	$	10,277.75
DTMA1H12005	Marad-Air Emission & Energy Initiative-Tugboat Repower	57.88%	$	36,148.65
G1400205	Wood Stove Retrofit Open Competition	25.00%	$	4,043.81
G1200455	Expansion of the Wood Stove Replacement Program P.A.H.	25.00%	$	4,929.64
G1400019	Tulalip Tribe Air Monitoring Services	25.00%	$	2,064.65
2014-052	Port of Seattle Truck Replacement Project	57.88%	$	40,108.95
	Total of Federal Indirect Cost Recovery		**$**	**118,067.60**

NOTE 9 – AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

Expenditures for the programs under Grant DEEE0002020 from the Department of Energy were funded by ARRA.

Budgetary Comparison

Budgetary Comparison Schedule

For the Year Ended June 30, 2014
(in whole dollars)

	Budgeted Amounts			
	Original	Final	Actual	Variance from Final Budget
Net Position - June 30, 2013			**9,814,409**	
OPERATING REVENUES:				
Charges for Services	4,937,842	4,937,842	5,501,372	563,530
Other Operating Revenues (grant & assessment revenues)	11,602,600	15,592,958	9,421,787	(6,171,172)
Miscellaneous Operating Revenues	-	-	11,932	11,932
Total Operating Revenues	**16,540,442**	**20,530,800**	**14,935,091**	**(5,595,710)**
OPERATING EXPENSES:				
Work Plan Expenses	8,619,783	12,298,894	5,293,558	(7,005,336)
Salaries and Wages	6,401,090	6,531,119	6,223,457	(307,662)
Employee Benefits	2,132,251	2,174,407	2,236,164	61,757
Professional Services	262,800	377,520	207,223	(170,297)
Repairs and Maintenance	146,167	173,692	145,323	(28,369)
Operating Expenses and Supplies	57,442	58,413	48,672	(9,741)
Rent and Utilities	612,080	612,080	611,093	(987)
Insurance	78,750	78,750	74,697	(4,053)
Travel, Training and Meeting Expenses	165,800	209,868	156,451	(53,417)
Telephone and Postage	69,273	69,273	60,076	(9,197)
Legal Expenses	23,500	23,500	15,150	(8,350)
Printing	10,000	10,000	11,726	1,726
Taxes and Bank Charges	31,800	31,800	42,209	10,409
Equipment	201,057	309,792	66,039	(243,753)
Depreciation	-	-	57,871	57,871
Total Operating Expenses	**18,811,793**	**22,959,108**	**15,249,710**	**(7,709,398)**
Operating Income (Loss)	**(2,271,351)**	**(2,428,308)**	**(314,619)**	**2,113,688**
NON-OPERATING REVENUES (EXPENSES)				
Interest and Investment Revenue	-	-	81,977	81,977
Miscellaneous Revenues (net)	-	-	118,434	118,434
Total Non-Operating Revenues (Expenses)	**-**	**-**	**200,411**	**200,411**
Net Surplus/(Charges to appropriations)	**(2,271,351)**	**(2,428,308)**	**(114,209)**	**2,314,099**
Transfers			**(463,705)**	
Net Position - June 30, 2014			**9,236,496**	

See accompanying notes to budgetary comparison schedule

Notes to Budgetary Comparison

In June of each fiscal year, the Agency's Board adopts an operating budget for the next fiscal year. The Board may adjust appropriations during the fiscal year with the approval of budget amendments. The budget and actuals shown in the table (above) display operating and non-operating revenues and expenses under the same conventions as the financial schedules except for the expenditures for capital assets which are in the "Equipment" category under the budget columns in order to disclose total fund appropriations as approved by the Board.

Board Approval of 2014 Budget Amendments

In 2014, the Board approved appropriations and new grants for inclusion in the budget.

- The Washington State Department of Ecology ("Ecology") awarded a grant in the amount of $12,429 to install and operate a monitoring site at the Tulalip Indian reservation.
- Ecology awarded a $2,700,000 two-year grant to the Agency, $1,091,000 of which was approved for expenditure in FY14 for woodstove removal and replacement work in the Tacoma Pierce County Smoke Reduction Zone. In addition, Ecology awarded a higher-than-planned amount for the federal core grant, allowing the Agency to increase the operating expense budget for needed expenditures. Additional funds were also awarded to expand an existing grant for work on emissions reduction at the Port of Tacoma. Other grant amounts were adjusted to reflect the latest estimates of expenditures and revenues for several multi-year grants.
- In October 2013, the Agency was awarded various new grants $200,000 to replace heavy-duty diesel trucks with heavy-duty liquid natural gas trucks – Ecology provided a $200,000 matching grant for this work. Ecology also issued a $500,000 grant to install idle-reduction equipment on heavy-duty emergency vehicles and awarded $65,120 to install additional devices on equipment with diesel particulate filters.
- Ecology provided a grant for $250,000 for woodstove retrofit devices. The Agency added $102,000 to the FY14 budget to conduct an open competition and contract for testing of this technology.
- The Agency entered into a contract with the Port of Seattle to receive pass-through funds, totaling $1,400,000. These funds were from the U.S. Department of Transportation's Congestion Mitigation and Air Quality Program via the Washington Department of Transportation (awarded to the Port of Seattle), an Ecology grant to the Port of Seattle, and from the Port of Seattle. The funding was for the Agency to operate a program to provide financial incentives to drayage truck owners to replace older trucks with new trucks meeting EPA's 2007 engine standards.
- A budget amendment was approved by the Board to add $75,000 from discretionary reserves to expand the existing grant funding from Ecology for the Tacoma-Pierce County Woodstove Program.
- Ecology awarded a grant for $372,800 to reduce diesel emissions on local harbor craft to the Agency - $100,000 of this was approved for expenditure in FY14. In addition, the Agency amended budget amounts for three Ecology grants whose balances would not be spent.
- Due to the success if the idle-reduction grant awarded earlier in the year, Ecology added $500,000 to the previously awarded grant to continue this work.

Discussion of Variances – Final Budget Compared to Actuals

Total operating revenues of $14,935,091 were $5,595,710 lower than the budgeted revenues of $20,530,800 primarily because of the following:

- Charges for services were $563,530 over the budget. $422,008 of this resulted from increased permitting activity in the Registration, Asbestos and Notice of Construction programs. In addition, $138,522 of the total increase was due to the transfers of civil penalty collections to cover additional staff work in the Registration and Operating Permit programs.

- Table 1 summarizes the components of other operating revenues and explains the budget underrun of $6,171,172. Federal grant revenues were under budget by $3,684,659 mainly because of the accrual of revenues (and a receivable) and expenses (and a payable) into the prior year for the ARRA Department of Energy grant. State Grants and State/Local Contracts were under budget $1,316,555 and $1,155,055 respectively because of the shift in grant-related work into the next fiscal year. The Clean Cities Coalition revenues were under budget due to lower members' dues and sponsorships in FY14.

TABLE 1			
OTHER REVENUES (OPERATING)[1]			
2014 - Budget v. Actual			
(In whole dollars)			
	Final Approved Budget	Actual	Variance
OTHER REVENUES (OPERATING)			
Per Capita	$ 2,095,856	$ 2,095,854	$ (2)
Federal Grants	7,703,102	4,018,443	(3,684,659)
State Grants	4,283,829	2,967,274	(1,316,555)
State and Local Contracts	1,430,171	275,116	(1,155,055)
Clean Cities Coalition	80,000	65,100	(14,900)
Total Other Revenues (Operating)	$ 15,592,958	$ 9,421,787	$ (6,171,172)
1. Amounts may not add due to rounding			

- Miscellaneous revenues included unbudgeted revenues of $11,932 from reimbursements, public disclosure fees, jury duty fees, and miscellaneous sponsorships for a workshop.

- Total Operating Expenses in fiscal year 2014 were $15,249,710 or $7,709,398 lower than the budget. The primary cause was the shift in grant-related expenses (work plan expenses) either back to FY13 for the ARRA grant or ahead to FY15 as discussed above. In addition, budgeted work plan expenses related to the enforcement portion of the Tacoma-Pierce Smoke Reduction project were underspent due to favorable weather (fewer burn ban days). Other expense variances to note are:
  - Salaries and wages were under budget due to positions that were open for a partial year; however, benefits were higher due to higher than budgeted compensated absences adjustments as a result of employees earning more vacation hours than they used.
  - Professional services were $170,297 under budget due to lower consulting expenses for engineering and human resources support.
  - Equipment expenses were $243,753 under budget due to the deferral of tenant improvements and office equipment (noise reduction) as the Agency enters into pre-term office lease negotiations. Planned vehicle purchases for Monitoring and Inspection were deferred to and budgeted in FY15.
  - Taxes and bank charges were over budget due to higher-than-expected merchant fees due credit card payments by Operating Permit sources.

- Non-Operating Expenses of $200,411 are comprised of interest income (net of related fees) and civil penalty collections (net of related expenses). These revenues are not budgeted since they are not considered program targets.
  - Interest Income and Investment Revenue of $81,977 included earned interest of $41,976 and unrealized gains on investments of $39,999 (see *Note 3 – Cash and Investments* for additional information).
  - Miscellaneous Revenues (net) of $118,434 included $456,523 in civil penalty collections net of related expenses of $338,088.

- The final amended budget anticipated a net deficit of $2,428,308 funded by appropriations from reserves. The actual financial performance for fiscal year 2014 resulted in a net charge to appropriations of $114,209 as the result of general operating expense underspending, unbudgeted revenues from civil penalty collections and interest income, and higher charges for services as described above.

- The net position decreased from $9,814,409 at the end of the prior year to $9,236,496. This decrease of $577,914 was comprised of the net charge to appropriations of $114,209 and the transfer of $463,705 in unspent contract funding to the Port of Seattle for services that the Agency no longer provided.

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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