Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

LOTT Clean Water Alliance

For the period January 1, 2021 through December 31, 2021

Published July 7, 2022

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Office of the Washington State Auditor
Pat McCarthy

July 7, 2022

Board of Directors
LOTT Clean Water Alliance
Olympia, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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LOTT Clean Water Alliance
January 1, 2021 through December 31, 2021

Board of Directors
LOTT Clean Water Alliance
Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the LOTT Clean Water Alliance, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Alliance's basic financial statements, and have issued our report thereon dated June 29, 2022.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Alliance's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alliance's internal control.

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

Our consideration of internal control was for the limited purpose described above 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 or significant deficiencies may exist that were not identified.

REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Alliance's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alliance's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

June 29, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

LOTT Clean Water Alliance
January 1, 2021 through December 31, 2021

Board of Directors
LOTT Clean Water Alliance
Olympia, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the LOTT Clean Water Alliance, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Alliance's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the LOTT Clean Water Alliance, as of December 31, 2021, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Alliance and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Alliance's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards*, includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Alliance's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2022 on our consideration of the Alliance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Alliance's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alliance's internal control over financial reporting and compliance.

Pat McCarthy, State Auditor

Olympia, WA

June 29, 2022

FINANCIAL SECTION

LOTT Clean Water Alliance
January 1, 2021 through December 31, 2021

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

The following discussion and analysis of the financial performance of the LOTT Clean Water Alliance (the Alliance) provides an overall review of the Alliance's financial activities for the year ended December 31, 2021. This discussion is designed to be read in conjunction with the financial statements and notes, which follow this section.

FINANCIAL HIGHLIGHTS

The LOTT Clean Water Alliance was incorporated on April 17, 2000 and operates under the laws of the State of Washington and applicable to 501(c)(3) corporations. All financial reporting is based on twelve months of operations. Key financial highlights for fiscal year 2021 are:

- In June 2021, the Alliance issued revenue bonds to Columbia Bank in the amount of $41,334,069 which refunded the 2011 revenue bond, as well as three State Revolving Fund loans with the Department of Ecology. The new bond has a coupon rate of 1.456% and has a net present value savings of $3.6 million. Additionally, this action removed cash restrictions of approximately $5.7 million.

- The Wastewater Service Charge (WSC) increased to $42.23 in 2021. In August 2020, the Board of Directors voted to increase the Wastewater Service Charge to $43.49 per month for 2022.

- The Capacity Development Charge (CDC) increased to $6,417.61 for 2021. This charge covers the cost to increase capacity of the system to accommodate new growth in the Alliance's service area. In August 2020, the Board of Directors voted to increase the Capacity Development Charge to $6,610.13 for 2022.

In 2021, the Alliance had a positive cash flow from operating activities and met all debt obligations. A negative cash flow from Capital and Related Financing Activities was largely the result of using cash on hand to finance construction projects. As of December 31, 2021, the Alliance had an unrestricted net position balance of $46,587,357. Of this total, approximately $12.5 million is set aside to pay operational and capital costs in the event of an emergency, with the remainder slated for debt reduction, future capital improvements and system upgrades.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

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

Notes to the Financial Statements

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

FINANCIAL ANALYSIS

Condensed Financial Information
December 31, 2021 and December 31, 2020

	December 31, 2021	December 31, 2020
Current and Other Assets	$ 62,328,763	$ 61,568,636
Capital Assets	241,866,756	223,005,181
Net Pension Asset	6,918,836	-
Total Assets	$ 311,114,355	$ 284,573,817
Deferred Outflow - Pension	$ 993,272	$ 1,013,860
Deferred Loss on Refunding	$ -	$ 85,829
Total Defered Outflow of Resources	$ 993,272	$ 1,099,689
Current Liabilities	$ 13,215,275	$ 12,121,960
Other Long-Term Liabilities	1,905,516	3,791,527
Long-Term Debt	61,368,170	60,980,543
Total Liabilities	$ 76,488,961	$ 76,894,030
Deferred Amount on Refunding	1,337,782	-
Deferred Inflow - Pension	$ 7,290,953	$ 1,012,093
Total Deferred Inflows of Resources	$ 8,628,735	$ 1,012,093
Net Investment in Capital assets	$ 171,645,440	$ 157,301,473
Restricted Net Position - Debt Service	1,838,298	4,696,384
Restricted Net Position - Pension	6,918,836	-
Unrestricted Net Position	46,587,357	45,769,526
Total Net Position	$ 226,989,931	$ 207,767,383

Continued on next page

Condensed Financial Information
For the Years Ended December 31, 2021 and December 31, 2020

		2021		2020
Revenue				
Charges for Services	$	32,362,207	$	30,201,867
Other Operating Revenue		244,690		123,269
Total Operating Revenue	$	32,606,897	$	30,325,135
Capacity Development Charge	$	12,592,581	$	8,746,385
Interest Income		349,995		1,078,849
Unrealized Loss on Investements		(863,818)		-
Gain(Loss) on Capital Asset Disposition		6,356		(189,825)
Other Nonoperating Revenues		2,172		1,537
Total Nonoperating Revenue	$	12,087,286	$	9,636,946
Total Revenue	$	44,694,182	$	39,962,081
Expenses				
General Operations	$	16,353,591	$	18,614,724
Professional Services		1,189,758		1,432,453
Depreciation		6,731,960		6,828,914
Total Operating Expenses	$	24,275,309	$	26,876,090
Interest Expense	$	1,196,326	$	1,671,977
Total Non Operating Expenses	$	1,196,326		1,671,977
Total Expenses	$	25,471,635	$	28,548,067
Excess (Deficiency)	$	19,222,548	$	11,414,014
Net Position - Beginning of Year	$	207,767,383	$	196,353,370
Change in Net Position	$	19,222,548	$	11,414,014
Net Position - End of Year	$	226,989,931	$	207,767,383

For the twelve months ending December 31, 2021, the total assets of the Alliance increased by approximately $26.5 million or 9% and total liabilities decreased by approximately $0.4 million or 1%. Total Net Position increased approximately $19.2 million or 9%. The increase in total assets is primarily due to construction of capital assets and the net pension asset. The small decrease in total liabilities is primarily due to scheduled payments of long-term debt, while issuing new debt to pay for capital assets.

The changes in Deferred Outflows and Inflows of Resources related to pensions are both related to changes passed on to LOTT from our proportionate share of deferred outflows and inflows from the PERS 1 and PERS 2/3 retirement plans from the Washington State Department of Retirement Systems.

The decrease in Deferred Outflows of Resources from the Deferred Loss on Refunding and increase in Deferred Inflows of Resources from Deferred Amount on Refunding is due to refunding of the 2011 bond issue. See Note 5 for additional information.

Operating revenue increased approximately 7.5% likely due to businesses reopening after Covid-19 shutdowns, as well as planned increases in rates. We still do not expect any additional short-term effects from Covid-19 to be significant given the large government employment base in our service area.

The Capacity Development Charge represents the fee charged for new customers to LOTT's system. Revenue from this charge, before rebates, increased approximately 44% primarily due to an increase in new connections. The total number of new connections to the system increased by approximately 39% while the connection charge increased by 3%.

For both the Wastewater Service Charge and the Capacity Development Charge, it is management's intention to propose rate structures which ensure rates are sufficient to keep pace with long-term inflation and fund LOTT's Capital Improvement Plan.

The rate of new connections in LOTT's service area has averaged approximately 1,000 new connections per year since 2008. At this time, management will continue to use this amount for estimating new connections for revenue purposes.

Total Operating Expenses decreased by approximately 10%. This is primarily due to purchasing more assets which could be capitalized than in the prior year as a result of several large construction projects.

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

Capital Assets

The Alliance's total net Capital Asset value increased to $242 million as of December 31, 2021. This increase is primarily due to the Biological Processes Improvements project which began near the end of 2020, and should cause Net Capital Assets to increase in the coming years.

Capital Assets consisted of $64.6 million in assets not being depreciated including land and construction in process and $324 million in depreciable assets with a total accumulated depreciation of $147 million.

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

Long-term Debt

The Alliance currently has the following long term debt:

- In June 2021, the Alliance issued revenue bonds to Columbia Bank which refunded the 2011 revenue bond, as well as three State Revolving Fund loans with the Department of Ecology. The new bond has a coupon rate of 1.456% and has semi-annual payments ranging from $0.1 million to $2.4 million through 2035.

- A Department of Ecology State Revolving Fund Loan, to construct the Martin Way Reclaimed Water Plant in 2004. This is a 20 year loan with a 1.5% interest rate and semi-annual payments of $919,149. The Alliance maintains $1,838,298 in a restricted account as required by the loan agreement.

- A Department of Ecology State Revolving Fund Loan for the design of the Biological Process Improvements Project issued in 2021. It is a 20 year loan with a 2.0% interest rate and semi-annual payments of $63,183.

- A Washington State Public Works Trust Fund loan for construction of new primary sedimentation tanks. This is a 20 year loan with a 0.5% interest rate and annual payments ranging from $549,559 to $561,893.

- A Washington State Public Works Trust Fund Loan issued in March 2005, for the upgrade of the Budd Inlet Treatment Plant Secondary Clarifiers. This is a 20 year loan with a 0.5% interest rate and annual payments ranging from $230,077 to $233,511.

- A Washington State Public Works Trust Fund Loan issued in 2008 for construction of the Kaiser Road Pump Station and Kaiser Road Forcemain replacement. This is a 20 year loan with a 0.5% interest rate and annual payments ranging from $200,587 to $206,575.

- A Washington State Public Works Trust Fund Loan for the construction of the Biological Process Improvements Project. During 2021, $9.5 million in draws were made on the loan of the $10 million loan amount. Once the loan has been completely drawn, the loan term will be 20 years with a 1.08% interest rate. Payments will be determined once the loan is finalized.

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

REQUESTS FOR INFORMATION

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

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

Statement of Net Position

December 31, 2021

		2021
ASSETS		
Current Assets		
Cash and Cash Equivalents	$	52,068,471
Receivables (Net)		22,213
Due from other Governmental Units		8,362,238
Total Current Assets	**$**	**60,452,921**
Noncurrent Assets		
Restricted cash and cash equivalents	$	1,838,298
Receivables (Net)		37,543
Capital Assets:		
Land (Non-depreciable)		27,576,925
Construction in Progress (Non-depreciable)		37,028,861
Plant		233,142,223
Collection System		87,571,164
Machinery and Equipment		3,410,744
Accumulated Depreciation		(146,863,161)
Total Capital Assets (Net)	$	241,866,756
Net Pension Asset		6,918,836
Total Noncurrent Assets	**$**	**250,661,433**
TOTAL ASSETS	**$**	**311,114,355**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflow - Pension	$	993,272
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$**	**993,272**
LIABILITIES		
Current Liabilities		
Accounts Payable	$	3,933,778
Wages, Benefits & Compensated Absences Payable		1,766,133
Current Portion of Long-Term Debt		7,515,364
Total Current Liabilities	$	13,215,275
Noncurrent Liabilities:		
Compensated Absences	$	1,245,280
Net Pension Liability		660,236
Long-Term Debt (Net of Current Portion)		61,368,170
Total Noncurrent Liabilities	$	63,273,685
TOTAL LIABILITIES	**$**	**76,488,961**
DEFERRED INFLOWS OF RESOURCES		
Deferred Amount on Refunding	$	1,337,782
Deferred Inflow - Pension		7,290,953
TOTAL DEFERRED INFLOWS OF RESOURCES	**$**	**8,628,735**
NET POSITION		
Net Investment in Capital Assets	$	171,645,440
Restricted Net Position - Debt Service		1,838,298
Restricted Net Position - Pension		6,918,836
Unrestricted		46,587,357
	$	**226,989,931**

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

Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended December 31, 2021

		2021
OPERATING REVENUES		
Charges for Services	$	32,362,207
Other Operating Revenue		244,690
Total Operating Revenue	**$**	**32,606,897**
OPERATING EXPENSES		
General Operations	$	16,353,591
Professional Services		1,189,758
Depreciation		6,731,960
Total Operating Expenses	**$**	**24,275,309**
OPERATING INCOME (LOSS)	**$**	**8,331,588**
NONOPERATING REVENUE (EXPENSES)		
Capacity Development Charge, net of rebate	$	12,592,581
Interest Income		349,995
Unrealized Loss on Investments		(863,818)
Interest Expense		(1,196,326)
Gain (Loss) on Capital Asset Disposition		6,356
Other Nonoperating Revenues		2,172
Total Nonoperating Revenues (Expenses)	$	10,890,960
CHANGE IN NET POSITION	**$**	**19,222,548**
TOTAL NET POSITION January 1	**$**	**207,767,383**
TOTAL NET POSITION, December 31	**$**	**226,989,931**

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

Statement of Cash Flows – Page 1 of 2
For the Year Ended December 31, 2021

		2021
Cash Flows from Operating Activities		
Cash Received from Customers	$	28,772,178
Cash Received from Other Operating Activities		216,584
Cash Payments to Suppliers for Goods & Services		(7,367,979)
Cash Payments to Employees		(3,857,559)
Cash Payments for Other Operating Activities		(7,594,083)
Net Cash Provided (Used) by Operating Activities	**$**	**10,169,142**
Cash Flows from Non-Capital Financing Activities		
Donations	$	2,172
Net Cash Provided (Used) in Non-Capital Financing Activities	**$**	**2,172**
Cash Flows from Capital and Related Financing Activities		
Proceeds from Capacity Development Charge	$	12,592,581
Proceeds from Bonds		41,334,069
Proceeds from Loans		9,500,000
Acquisition, Construction and Improvements of Capital Assets		(25,587,178)
Repayments on Loans		(34,495,547)
Bond Principal Payments		(14,595,480)
Interest paid on Loans		(674,377)
Interest paid on Revenue Bonds		(589,565)
Net Cash Provided (Used) in Capital and Related Financing Activities	**$**	**(12,515,497)**
Cash Flows from Investing Activities		
Interest Received on Investments	$	349,995
Increase (Decrease) in fair value of investment classified as cash equivalents		(863,818)
Net Cash Provided by Investing Activities	**$**	**(513,823)**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(2,858,006)**
Cash and Cash Equivalents at Beginning of Year	**$**	**56,764,776**
Cash and Cash Equivalents at End of Year	**$**	**53,906,770**

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

Statement of Cash Flows – Page 2 of 2
For the Year Ended December 31, 2021

		2021
Operating Income	$	8,331,588
<u>Adjustments:</u>		
Depreciation	$	6,731,960
Changes in Operating Assets and Liabilities:		
Receivables (Net)		(3,618,134)
Accounts Payable		817,603
Wages and Benefits Payables		(2,219,626)
Compensated Absences Payable		125,752
Total Changes in Operating Assets and Liabilities	$	(4,894,405)
Total Adjustments	$	1,837,554
Net Cash Provided by Operating Activities	**$**	**10,169,142**
Noncash Investing, Capital or Financing Transactions:		
Accrued Interest on Construction Loans	$	5,535
Change in Deferred Amount on Refunding - 2021 Bond		73,151
Noncash Interest Expense - 2011 Bond Refunding		85,829

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

Notes to the Financial Statements
For the Year Ended December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity

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

b. Basis of Accounting and Presentation

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

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

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

c. Cash and Cash Equivalents

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

d. Capital Assets and Depreciation

See Note 3.

e. Restricted Assets

In accordance with the Hawks Prairie State Revolving Fund loan from the Department of Ecology, a separate account has been established in the amount of $1,838,298. The assets held in this account are limited to use for debt service reserve requirements.

f. Receivables

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

g. Investments

See Note 2.

h. Compensated Absences

Vacation leave may be accumulated up to 480 hours for all employees and is payable upon separation. The liability for unpaid vacation leave as of December 31, 2021 was $833,799.

Comp time earned in place of overtime can accrue up to 120 hours for eligible independent and represented non-exempt employees. This bank is payable upon separation or at any time the employee requests it. The liability for unpaid comp time as of December 31, 2021 is $57,074.

Sick leave may accumulate without limit, however, balances are rolled back to 960 on January 1 of each year.

Upon retirement, up to 120 hours of sick leave is payable to eligible employees. Ninety percent of the value of any remaining sick leave is deposited into a healthcare reimbursement account (HRA) through a voluntary employee beneficiary association (VEBA) and ten percent is deposited into the shared leave account per the Alliance's Administrative Guidelines.

Upon non-retirement separation, the entire value of an employee's unused sick leave is deposited into the shared leave account per the Alliance's Administrative Guidelines. The liability for unpaid sick leave as of December 31, 2021 is $1,209,460 and the balance in the shared leave account is estimated to be $390,227.

Employees earned $1,234,477 and used $982,973 in compensated absences during 2021. The total liability for compensated absences as of December 31, 2020 and 2021 was $2,239,057 and $2,490,560, respectively. Management estimates $1,245,280 of total compensated absences will be due within one year of the date of the Statement of Net Position.

i. Pensions

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

For purposes of calculating restricted net position related to the net pension asset, the Alliance includes the net pension asset only.

j. Reserved Funds

In June 2007, the Alliance Board of Directors approved resolutions to establish emergency cash reserves. In 2013, the Board adopted metrics which required the operation reserve to be indexed to six months of operating expenses. These reserves are intended to keep the utility in operation in the event of cash flow disruptions that can occur due to natural or man-made catastrophes. The Alliance's emergency reserves are as follows:

Type	Amount
Emergency Capital Reserve	3,000,000
Emergency Operations Reserve	9,501,311
Total	$12,501,311

NOTE 2 **- DEPOSITS AND INVESTMENTS**

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

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

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

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

The Alliance considers all amounts on deposit in the TCIP as of December 31, 2021 to be cash and cash equivalents and are based on level 1 inputs with a fair value of $53,901,519 using a multiplier of 0.992695.

Since the fair value adjustment required is larger than total interest income for the year, Management has elected to discretely present this adjustment as an Unrealized Loss on Investments. The Unrealized Loss on Investments is independent of any realized gains and losses. Additionally, realized gains and losses of the current year include unrealized amounts from prior years.

The TCIP does not have a credit rating and has a weighted average maturity of 2.13 years as of December 31, 2021.

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

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

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

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

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

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

Capital asset activity for the year ended December 31, 2021 was as follows:

Asset	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land and Land Improvements	$ 26,250,464	$ 1,326,460	$ -	$ 27,576,925
Construction in Progress	12,911,132	25,499,589	1,381,860	37,028,861
Total capital assets not being depreciated	**$ 39,161,596**	**$ 26,826,049**	**$ 1,381,860**	**$ 64,605,785**
Capital Assets being depreciated:				
Plant	$ 233,086,823	$ 55,400		$ 233,142,223
Machinery and Equipment	3,334,560	93,945	17,761	3,410,744
Collection System	87,571,164			87,571,164
Total capital assets being depreciated	**$ 323,992,547**	**$ 149,345**	**$ 17,761**	**$ 324,124,131**
Less accumulated depreciation for:				
Plant	$ (107,151,309)	$ (4,205,375)		$ (111,356,684)
Machinery and Equipment	(1,809,066)	$ (303,390)	(17,761)	(2,094,696)
Collection System	(31,188,584)	$ (2,223,194)		(33,411,779)
Total accumulated depreciation	**$ (140,148,962)**	**$ (6,731,960)**	**$ (17,761)**	**$ (146,863,161)**
Total capital assets being depreciated, net	**$ 183,843,587**	**$ (6,582,615)**	**$ -**	**$ 177,260,972**
Total capital assets, net	**$ 223,005,181**	**$ 20,243,435**	**$ 1,381,860**	**$ 241,866,756**

Construction and Other Significant Commitments

The Alliance has active capital projects as of year-end. As of December 31, 2021 the Alliance's significant commitments with contractors are as follows. Note: The items listed below are for individual significant contracts, and not the project as a whole.

Project	Spent through 12/31/21	Remaining Commitment
Biological Process Improvements Construction	$ 19,292,341	$ 9,986,822
Biological Process Improvements Construction Support Services	1,222,714	1,946,276
Reclaimed Water Infiltration Study - Phase 3 Study Implementation	4,612,921	116,751
BITP Miscellaneous Mechanical Improvements	811,822	563,791
Security Improvements Fence Construction	-	866,448

NOTE 4 – CONSTRUCTION IN PROGRESS

The following table details construction in progress activity as of December 31, 2021:

Project Name	Expended through 12/31/21
Safety and Security Infrastructure	$ 160,977
Biological Process Improvements	27,701,844
North Outfall Upgrade	306,043
Martin Way Reclaimed Water Plant Improvements	2,442,225
Sludge Thickening System Improvements	342,537
Digester System Improvements	1,504,334
BITP Miscellaneous Mechanical Improvements	1,522,807
Maintenance Bldg Office Space Improvements	740,145
MWRWP Blower and Screen Upgrade	950,368
Collection System Rehabilitation Phase 1	1,166,131
Substation and Switchgear A/B Replacement	55,068
Security Improvements	136,383
Total	$ 37,028,861

NOTE 5 – LONG-TERM DEBT

As of December 31, 2021, long-term debt consisted of the following:

Issue Name	Original Amount	Annual Installments	Final Maturity	Interest Rates	Balance 12/31/21
State of Washington Revolving Fund Loans:					
Hawks Prairie Reclaimed Water Facility	$ 31,162,916	$ 1,838,298	2027	1.5%	$ 9,668,735
Deschutes Parkway Pipeline	1,086,346	73,944	2021	2.9%	-
Primary Sedimentation Basins	37,552,332	2,491,944	2021	2.6%	-
Reclaimed Water Tank	4,394,506	292,198	2021	2.6%	-
Biological Process Improvements Design	2,086,338	126,367	2040	2.0%	1,987,800
Public Works Trust Fund Loans:					
Secondary Clarifiers	4,278,404	$230,077 - 233,511	2025	0.5%	915,729
Kaiser Road Pump Station	3,743,641	$200,587 - 206,575	2028	0.5%	1,397,124
Primary Sedimentation Basins Construction	10,000,000	$549,559 - 561,893	2031	0.5%	5,481,880
Biological Process Improvements Construction	10,000,000	Approx. $600,000	2041	1.08%	9,283,678
Revenue Bonds:					
2021 Columbia Bank (Direct placement)	41,334,069	$0.3 to $.9 million	2035	1.46%	40,148,589
2011 Revenue Bond, including premium *	35,521,893	$1.2 to 3.4 million	2021	3.16%	-
Total Debt	$ 181,160,445				$ 68,883,535

* - Subject to federal arbitrage requirements

During the year ended December 31, 2021, the following changes occurred in long-term debt:

Issue Name	Beginning Balance 1/1/21	Increases	Decreases	Ending Balance 12/31/21	Due Within One Year
State of Washington Revolving Fund Loans:					
Hawks Prairie Reclaimed Water Facility	$ 11,342,634	$ -	$ 1,673,899	$ 9,668,735	$ 1,699,181
Deschutes Parkway Pipeline	609,670	-	609,670	-	-
Primary Sedimentation Basins	27,315,133	-	27,315,133	-	-
Reclaimed Water Tank	3,605,275	-	3,605,275	-	-
Biological Process Improvements Design	2,080,803	5,535	98,538	1,987,800	86,879
Public Works Trust Fund Loans:					
Secondary Clarifiers	1,144,661	-	228,932	915,729	228,932
Kaiser Road Pump Station	1,596,713	-	199,589	1,397,124	199,589
Primary Sedimentation Basins Construction	6,030,068		548,188	5,481,880	548,188
Biological Process Improvements Construction	-	9,500,000	216,322	9,283,678	464,184
Revenue Bonds:					
2021 Columbia Bank (Direct placement)	-	41,334,069	1,185,480	40,148,589	4,288,411
2011 Revenue Bond, including premium	14,906,762	-	14,906,762	-	-
Total Debt	$ 68,631,720	$ 50,839,604	$ 50,587,789	$ 68,883,535	$ 7,515,364

The annual requirements to amortize all debts outstanding as of December 31, 2021, including principal and interest, are as follows.

Bonds

Year Ending December 31st	Bond Principal	Bond Interest	Bond Total
2022	$ 4,288,411	$ 568,954	$ 4,857,365
2023	3,160,787	510,619	3,671,406
2024	3,211,786	464,412	3,676,198
2025	3,262,180	417,465	3,679,645
2026	3,311,962	369,787	3,681,748
2027-2031	17,263,072	1,104,110	18,367,182
2032- 2035	5,650,392	117,886	5,768,278
	$ 40,148,589	$ 3,553,232	$ 43,701,822

Loans

Year Ending December 31st	Loan Principal	Loan Interest	Loan Total
2022	$ 3,226,953	$ 350,556	$ 3,577,509
2023	3,254,370	312,292	3,566,662
2024	3,282,211	273,604	3,555,815
2025	3,310,480	234,487	3,544,968
2026	3,110,254	194,934	3,305,188
2027-2031	6,873,136	639,152	7,512,288
2032-2036	2,873,251	372,865	3,246,117
2037-2041	2,804,289	132,109	2,936,397
	$ 28,734,944	$ 2,509,999	$ 31,244,944

Items related to 2021 Bond Issue

In 2021, the Alliance refunded following debt issues:

Loan	Amount Refunded
2011 Bond	$10,727,866
Deschutes Parkway Pipeline SRF Loan	583,323
Primary Sedimentation Basins SRF Loan	26,504,846
Reclaimed Water Tank SRF Loan	3,518,034

The 2011 Bonds were redeemed, and the loans repaid, in June 2021. This refunding lowered debt service approximately $3.9 million over the life of the refunding bonds and the transaction resulted in an economic gain of $3.6 million.

The Deferred Amount on Refunding represents the unamortized portion of the 2011 bond's premium. It is amortized over the 10 years that the refunded debt would have been outstanding.

Other Long Term Liabilities

For information on Compensated Absences, please see Note 1h. For information on Pensions, please see Note 6.

NOTE 6 **– PENSION PLAN**

The following table represents the aggregate pension amounts for all plans for the year 2021.

Aggregate Pension Amounts **– All Plans**	
Pension liabilities	$660,236
Pension assets	$6,918,836
Deferred outflows of resources	$993,272
(Deferred inflows of resources)	($7,290,953)
Pension expense (income)	($1,652,036)

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR 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.

Public Employees' Retirement System (PERS)

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

PERS Plan 1 – Description

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the members' years of service. The AFC is the average of the member's highest 24 consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

PERS Plan 1 – Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

Actual Contributions Rates	Employer	Employee
January – June 2021:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	**12.97%**	**6.00%**
July – December 2021:		
PERS Plan 1	10.07%	6.00%
Administrative Fee	0.18%	
Total	**10.25%**	**6.00%**

PERS Plan 2/3 – Description

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

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

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

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Plan 2/3 – Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

Actual Contributions Rates	Employer 2/3	Employee (2 only)
January – June 2021		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**12.97%**	**7.90%**
July – December 2021:		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**10.25%**	**6.36%**

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

The Alliance's actual PERS plan contributions were $367,986 to the Plan 1 UAAL and $611,130 to Plan 2/3, for the year ended December 31, 2021.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study Report* and the *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 2.75% total economic inflation; 3.5% salary inflation
- Salary increases: In addition to the base 3.5% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.4%

Mortality rates were developed using the Society of Actuaries Pub. H.2010 mortality rates as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were no changes in assumptions since the last valuation. There were changes in methods since the last valuation:

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.

- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pensions plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension (Asset)Liability

The table below presents the Alliance's proportionate share of the net pension (asset)liability calculated using the discount rate of 7.4 percent, as well as what the Alliance's proportionate share of the net pension (asset)liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

Plan	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	1,124,749	660,236	255,132
PERS 2/3	(1,971,042)	(6,918,836)	(10,993,346)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2021, the Alliance reported its proportionate share of the net pension liabilities as follows:

Plan	(Asset)Liability
PERS 1	$660,236
PERS 2/3	($6,918,836)

The Alliances proportionate share of the collective net pension liabilities was as follows:

Plan	Proportionate Share 6/30/20	Proportionate Share 6/30/21	Change in Proportion
PERS 1	0.051425%	0.054063%	0.002638%
PERS 2/3	0.066963%	0.069455%	0.002492%

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

Pension Expense

For the year ended December 31, 2021, the Alliance recognized pension expense as follows:

Plan	Pension Expense
PERS 1	$(44,738)
PERS 2/3	$(1,607,298)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2021, the Alliance reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

PERS Plan 1	Deferred Outflows of Resources	(Deferred Inflows of Resources)
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ (732,641)
Changes of assumptions	$ -	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	$ -
Contributions subsequent to the measurement date	$ 161,769	$ -
TOTAL	$ 161,769	$ (732,641)

PERS Plan 2/3	Deferred Outflows of Resources	(Deferred Inflows of Resources)
Differences between expected and actual experience	$ 336,038	$ (84,818)
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ (5,782,524)
Changes of assumptions	$ 10,111	$ (491,352)
Changes in proportion and differences between contributions and proportionate share of contributions	$ 209,599	$ (199,616)
Contributions subsequent to the measurement date	$ 275,755	$ -
TOTAL	$ 831,503	$ (6,558,310)

Deferred outflows of resources related to pensions resulting from the Alliance's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS Plan 1	PERS Plan 2/3
2022	$ (194,077)	$ (1,595,270)
2023	$ (177,845)	$ (1,491,376)
2024	$ (168,159)	$ (1,398,809)
2025	$ (192,560)	$ (1,526,325)
2026	$ -	$ (3,019)
Thereafter	$ -	$ 12,237
Total	$ (732,641)	$ (6,002,562)

Changes in Net Pension Asset and Liability
Net Pension Liability decreased by $2,011,763 from $2,671,999 in 2020 to $660,236 in 2021. Net Pension Asset increased from zero in 2020 to $6,918,836 in 2021.

NOTE 7 – ASSOCIATION OF WASHINGTON CITIES EMPLOYEE BENEFIT TRUST

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

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

As of December 31, 2021, 262 cities, towns, and non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, the AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members.

The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an individual stop loss (ISL) of $1.5 million through Commencement Bay Risk Management, and Kaiser ISL at $1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC Trust HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the AWC Trust HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

NOTE 8 – RISK MANAGEMENT

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 166 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are $4 million per occurrence in the self-insured layer, and $16 million in limits above the self-insured layer is provided by reinsurance. Total limits are $20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to $750,000, for all perils other than flood and earthquake, and insured above that to $400 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to $250,000 and insured above that to $100 million per occurrence subject to aggregates and sublimits.

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

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

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

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

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

NOTE 9 – CONTINGENCIES AND LITIGATION

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

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

NOTE 10 – MATERIAL RELATED PARTY TRANSACTIONS

The Alliance was formed by an interlocal agreement by Thurston County and the cities of Olympia, Lacey and Tumwater. Substantially all the Alliance's revenues come from wastewater charges (Wastewater Service Charge) and connection charges (Capacity Development Charge) collected by the cities of Olympia, Lacey and Tumwater and remitted to the Alliance. As of December 31, 2021, the Alliance held short-term receivables in the following amounts:

Account	Amount
Olympia	$2,440,141
Lacey	$4,901,137
Tumwater	$1,020,959

All of the receivables listed above were collected by March 2022.

NOTE 11 – CAPACITY DEVELOPMENT CHARGE REBATE

LOTT operates rebate programs to encourage properties with septic systems to hook up to the LOTT system. The program's goal is two-fold: reduce nutrients to LOTT's receiving waters by providing a higher level of treatment than septic systems can provide, as well as the financial benefits of these properties being hooked up to the LOTT system before a requirement exists. Eligible participants in the program can receive a rebate of between 50% and 75% of the Capacity Development Charge, depending on income. In 2021, the programs funded rebates totaling $710,938.

NOTE 12 – COVID-19

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

The financial impact on the Alliance has been relatively minor. Operating Revenues have returned to levels at or above pre-pandemic expectations. However, the full extent of the financial impact on the Alliance is unknown at this time.

NOTE 13 – SUBSEQUENT EVENTS

In April 2022, the Alliance made the final draw on a Public Works Trust Fund loan with the Washington State Department of Commerce in the amount of $500,000. This loan was awarded in 2019 in the amount for $10 million with a 1.08% annual interest rate to provide funding for the construction of the Biological Process Improvements project.

In April 2022, the Alliance made the first draw on a State Revolving Fund Loan with the Washington State Department of Ecology in the amount of $10,301,580. This loan was awarded in 2020 in the amount for $11.5 million with a 2.0% annual interest rate to provide funding for the construction of the Biological Process Improvements project.

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

PERS 1	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.054063%	0.051425%	0.049566%	0.054143%	0.049349%	0.054966%	0.051213%
Employer's proportionate share of the net pension liability	$ 660,236	$ 1,815,580	$ 1,905,989	$ 2,418,045	$ 2,341,649	$ 2,951,933	$ 2,678,916
TOTAL	$ 660,236	$ 1,815,580	$ 1,905,989	$ 2,418,045	$ 2,341,649	$ 2,951,933	$ 2,678,916
Covered payroll	$ 8,480,531	$ 7,805,147	$ 6,951,780	$ 7,210,144	$ 6,223,189	$ 6,576,015	$ 5,635,191
Employer's proportionate share of the net pension liability as a percentage of covered payroll	7.79%	23.26%	27.42%	33.54%	37.63%	44.89%	47.54%
Plan fiduciary net position as a percentage of the total pension liability	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%

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

Note 1

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

Note 2

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

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

PERS 2/3	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.069455%	0.066963%	0.063959%	0.069509%	0.063476%	0.070435%	0.066152%
Employer's proportionate share of the net pension liability (asset)	$ (6,918,836)	$ 856,419	$ 621,259	$ 1,186,804	$ 2,205,488	$ 3,546,347	$ 2,363,649
TOTAL	$ (6,918,836)	$ 856,419	$ 621,259	$ 1,186,804	$ 2,205,488	$ 3,546,347	$ 2,363,649
Covered payroll	$ 8,480,531	$ 7,805,147	$ 6,951,780	$ 7,210,144	$ 6,223,189	$ 6,576,015	$ 5,635,191
Employer's proportionate share of the net pension liability(asset) as a percentage of covered payroll	-81.58%	10.97%	8.94%	16.46%	35.44%	53.93%	41.94%
Plan fiduciary net position as a percentage of the total pension liability(asset)	120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%

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

Note 1

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

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

Plan 1	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$ 367,986	$ 373,812	$ 370,167	$ 356,586	$ 330,105	$ 294,639	$ 264,823
Contributions in relation to the statutorily or contractually required contributions	$ 367,986	$ 373,812	$ 370,167	$ 356,586	$ 330,105	$ 294,639	$ 264,823
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 8,480,531	$ 7,765,062	$ 7,170,776	$ 7,048,290	$ 6,749,928	$ 6,176,957	$ 6,035,694
Contributions as a percentage of covered payroll	4.34%	4.81%	5.16%	5.06%	4.89%	4.77%	4.39%

Notes To the Schedule of Employer Contributions, PERS Plan 1

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

Note 2
GASB 68 was implemented by the Alliance in 2015. As such, only information from 2015 onwards is available for this schedule.

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

Plan 2/3	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$ 611,130	$ 617,592	$ 575,163	$ 528,520	$ 459,937	$ 384,815	$ 340,055
Contributions in relation to the statutorily or contractually required contributions	$ 611,130	$ 617,592	$ 575,163	$ 528,520	$ 459,937	$ 384,815	$ 340,055
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 8,480,531	$ 7,765,062	$ 7,170,776	$ 7,048,290	$ 6,749,928	$ 6,176,957	$ 6,035,694
Contributions as a percentage of covered payroll	7.21%	7.95%	8.02%	7.50%	6.81%	6.23%	5.63%

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

Note 1

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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