Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Puget Sound Clean Air Agency

For the period July 1, 2022 through June 30, 2023

Published March 21, 2024

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Office of the Washington State Auditor
Pat McCarthy

March 21, 2024

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 Agency's financial activities and condition.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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Puget Sound Clean Air Agency
July 1, 2022 through June 30, 2023

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of the Puget Sound Clean Air Agency are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 Agency.

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 Agency's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

ALN	Program or Cluster Title
66.039	Diesel Emission Reduction Act (DERA) National Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was $750,000.

The Agency qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Puget Sound Clean Air Agency
July 1, 2022 through June 30, 2023

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, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated March 14, 2024.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Agency'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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

March 14, 2024

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Puget Sound Clean Air Agency
July 1, 2022 through June 30, 2023

Board of Directors
Puget Sound Clean Air Agency
Seattle, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the Puget Sound Clean Air Agency, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2023. The Agency's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Agency 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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Agency 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Agency's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Agency's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Agency's compliance based on our audit. 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, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Agency's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, 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 Agency's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the Agency's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over compliance. Accordingly, no such opinion is expressed; and

- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON 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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 the Uniform Guidance. 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.

Pat McCarthy, State Auditor

Olympia, WA

March 14, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Puget Sound Clean Air Agency
July 1, 2022 through June 30, 2023

Board of Directors
Puget Sound Clean Air Agency
Seattle, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the Puget Sound Clean Air Agency, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying 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, 2023, 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 (GAAS) 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 Agency 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.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2023, the Agency adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

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 Agency'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 Agency'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 Agency'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 financial section of our report 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This supplementary information 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 as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2024 on our consideration of the Agency'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 Agency'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 Agency's internal control over financial reporting and compliance.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

March 14, 2024

FINANCIAL SECTION

Puget Sound Clean Air Agency
July 1, 2022 through June 30, 2023

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MCAG No. 1024

PUGET SOUND CLEAN AIR AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the period July 1, 2022 - June 30, 2023
(In whole dollars)

		2023
OPERATING REVENUE		
Charges for Services, net of bad debt expense	$	5,613,699
Supplemental Income (Per Capita)		3,767,753
Other Operating Revenues		1,617
Total Operating Revenues		**9,383,069**
OPERATING EXPENSES		
Salaries and Wages		7,545,665
Employee Benefits		1,296,514
Work Plans		2,574,173
Professional Services		357,423
Software Purchases, Maintenance & Subscriptions		45,163
Repairs and Maintenance		59,534
Operating Expenses, Supplies and Printing		39,373
Rent, Utilities and Insurance		273,192
Travel, Training and Meeting Expenses		161,807
Telephone and Postage		65,945
Legal Expenses		97,520
Interest, Taxes & Bank Charges		287,084
Non-Capitalized Assets (under $5,000)		55,288
(Gain)/Loss on Asset Disposal		(3,000)
Amortization (Lease and SBITA assets)		530,769
Depreciation (Capital Assets)		151,806
Total Operating Expenses		**13,538,256**
Operating Surplus (Deficit)		**(4,155,186)**
NON-OPERATING REVENUES (EXPENSES)		
Federal and State Grant Revenues		4,368,727
Civil Penalty Collections		302,527
Investment Revenues, net of Unrealized and Realized Gains/Losses		256,857
Total Non-Operating Revenues (Expenses)		**4,928,111**
Total Surplus (Deficit)	**$**	**772,925**
Change in the application of an accounting principle in the reporting of OPEB		94,748
Change in Net Position		**867,673**
Total Net Position - Beginning	**$**	**8,766,998**

		2023
Total Net Position - Ending	**$**	**9,634,670**

Totals may not add due to rounding

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

PUGET SOUND CLEAN AIR AGENCY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the period July 1, 2022 through June 30, 2023
(In whole dollars)

	2023
CASH FLOW FROM OPERATING ACTIVITIES	
Receipts from customers	7,577,953
Payment to suppliers	(3,370,925)
Payment to employees	(10,164,496)
Net cash provided (used) by operating activities	**(5,957,468)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Non-operating revenues (expenses), net of non-cash adjustments	4,433,495
Net cash provided (used) by noncapital financing activities	**4,433,495**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	205,799
Net cash provided (used) by capital and related financing activities	**205,799**
CASH FLOWS FROM INVESTING ACTIVITIES	
Non-cash Unrealized Gains/Losses	(38,718)
Interest and dividends	218,140
Net cash provided by investing activities	**179,422**
Net Increase (Decrease) in cash and cash equivalents	**(1,138,751)**
Balances - beginning of the year	11,196,669
Balances - end of year	**10,057,918**

The notes to the financials are an integral part of this statement

Cash Balance from St of Net Position	**10,057,918**

Cash Flow Worksheet

Cash received from customers	
Operating revenue	9,383,069
Add : customer receivables - beginning	1,452,388
Less: customer receivables - ending	3,284,334
Plus: change in deferred revenue - non-cash	-
Change in Allowance for Doubtful Accounts	(32,626)
Less: Writeoffs reducing A/R	(59,456)
Plus: Collections	-
Net cash received from customers	**7,577,953**
Cash paid to suppliers	
Supplies and materials	39,373
Add: repairs and maintenance	175,190

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	2023
Operating income (loss)	**(4,155,186)**
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Non-Cash Items	
Depreciation expense	151,806
Bad debt expense	59,456
Compensated Abs/Excess Comp	302,129
Other - Write-offs & other	10,035
Adjustment for Leases	(18,185)
Adjustment for SBITA	(11,407)
Pension Expense	(1,030,475)
OPEB Expense	(525,116)
Equipment Purchase	(205,799)
Change in Allowance for doubtful accts	(32,626)
Receivables, net	(1,772,490)
Deferred revenue	-
Accounts payable	1,355,097
Prepaid assets	(5,544)
Restricted assets	-
Payroll liabilities & other	(68,856)
Net cash provided (used) by operating activities	**(5,947,160)**

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

Operating Salaries and Benefits - cash	
Total Salaries	7,545,665
Total Benefits	1,296,514
	-
Less: Non-cash in 7140	-
Less: Non-cash in 7142	(6,487)
Less: Non-cash in 7143	1,030,475
Less: Non-cash in 7144	525,116
Less: Non-cash in 7146	-
Less: Non-cash in 7190	(295,642)
Total	**10,095,640**

Non-cash Adjustments - Non-Operating Net Surplus	
Non-Operating (Net Surplus)	**4,928,111**
Eliminate Interest earnings (gross) - shown above in investing activities	(218,140)
	(276,476)
Other	-
	-
Adjusted Net non-Operating Surplus	**4,433,495**

Other	
Add: payroll liabilities paid not booked	-
Other	(49,421)

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 complies with GASB guidance as the basis for accounting. 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 Washington state auditor and after considering the financial reporting options for special purpose districts.

In the 2022, the agency implemented a new GASB, GASB 87 – Leases, and the effects are reflected in the financial statements. We also restated the prior year (2021) for comparative purposes.

Proprietary Fund
Generally Accepted Accounting Principles (GAAP) requires that proprietary funds distinguish between operating and non-operating revenues and expenses. Revenues are classified as either "operating", those revenues which support specific programs and are fee-for-service, or as "non-operating", those revenues that are grants, membership dues or miscellaneous minor revenues that do not specifically support a program.

- Operating - These incomes, expenses and cash flows are fees for services, supplemental income related to the state Clean Air Act, contracts for services, and payments to support specific activities or programs considered to be operating activities of the Agency. This category includes revenues and expenses for the fee programs (asbestos, notice of construction, registration, and operating permits), supplemental income (per capita) assessments, and miscellaneous operating activities. Operating expenses include all of the agency's expenses, including grant-pass through payments to subrecipients and grant partners.

- Non-operating – This category includes revenues for state and federal grants, grant-related contracts, interest income net of investment management fees, investment realized gains/losses, and market value adjustments, and civil penalty collections.

C. Budgetary Information
Annual appropriated budgets for the new fiscal year are adopted by the Agency's Board of Directors for the proprietary fund before the end of the current fiscal year. The budget process also includes a Board review and approval of Agency financial policies, any fee program changes, the annual per capita rate charged and the apportionment of supplemental income assessments to the four-county jurisdictions. Budget amendments throughout the fiscal year are approved by the Board as deemed appropriate and are enacted through a Board resolution.

D. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents
Agency policy is to invest all temporary cash surpluses and reserves. 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. See Note 2 for the detail of investments and the reconciliation between the fair value of investments held and the booked amounts.

   In 2023, interest earnings and investment loss recaptures were allocated to the interest income reserve – the Board approves withdrawals from this reserve.

2. Receivables
Accounts receivable consist of amounts owed from private individuals, companies, 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 that is adjusted at each fiscal year-end (based on collection trends). (See Note 3).

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. (See Note 4).

4. Deferred Outflows/Inflows of Resources
The Agency reported deferred outflows and inflows related to the implementation of GASB 68 for pension liabilities. These are reported separately on the financial statements (see Notes 6 and 7 for additional information).

5. Accounts Payable
Accounts Payable represents goods and services received as of June 30, 2023, for which payments have not yet been made. (See Note 5 for further information).

6. Compensated Absences and Excess Compensation Liabilities
Compensated absences are earned and untaken absences for which employees may be paid, such as vacation, compensatory leave, and sick leave.

   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 out 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. See Note 12 for additional information.

7. Other Accrued Liabilities
   These accounts consist of accrued wages and accrued employee benefits.

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

9. 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 the restricted net position related to the net pension asset, the (city/county/district) includes the (net pension asset only/net pension asset and the related deferred outflows and deferred inflows/net pension asset and related deferred inflows). See Note 6 for further information.

10. Other Post-employment Benefit (OPEB) Plans
    The Governmental Accounting Standards Board (GASB) released accounting standards for public postemployment benefit plans other than pension (OPEB) under GASB 75. The OPEB liability and the OPEB expense are reflected in the financial statements (see Note 7).

11. Leases
    In 2022, the agency implemented GASB 87 (Leases) and now reports a lease asset and a lease liability on the Statement of Net Position. Amortization of the lease asset and interest expense related to the lease liability are reported on the Statement of Revenues, Expenses, and Changes in Fund Net Position. In 2023, we adjusted the lease assets and liability to exclude immaterial leases and 2022 financials were similarly restated for comparison purposes. See Note 10 for further information.

12. Subscription Based Information Technology Arrangements (SBITA)
    In 2023, the agency implemented GASB 96 to reflect the long-term effect of subscription-based IT arrangements on the financial statements. See Note 11 for further information.

13. Restricted and Unrestricted Net Position
    The restricted portion of net position represents amounts restricted by external entities such as state legislation, state or federal grantor agreements, and contracts between the Agency and other external entities. Unrestricted net position includes reserves that are set aside and governed by the Agency's Board-approved financial policies (see Note14).

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

NOTE 2 – 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. The Agency has entered into a formal interlocal agreement with the Agency to have all of its funds, not required for immediate expenditure, to be invested in the King County Investment Pool ("Pool"). The Pool is guided by the following principles:

1. The primary objective of the Pool's investment of public funds is to safeguard investment principal.
2. The secondary objective is to maintain sufficient liquidity to ensure that funds are available to meet daily cash flow requirements.
3. The third consideration is to achieve a reasonable yield consistent with these objectives.

The Pool is administered by the King County Treasury Operations Section as an external investment pool. For investment purposes, the county pools the cash balances of county funds and participating component units, and allows for participation by other legally separate entities such as special districts, for which the county is the ex officio treasurer, and public authorities. The external portion of the KCIP (the portion that belongs to special districts and public authorities other than component units) is reported in an Investment Trust Fund. It is the county policy to invest all county funds in the Pool.

All securities are reported at fair value and reports are prepared monthly and distributed to all Pool participants. The Pool values participants' shares using an amortized cost basis. Monthly income is distributed to participants based on their relative participation during the period. Income is calculated based on realized investment gains and losses, interest income based on stated rates (both paid and accrued), and the amortization of discounts and premiums on a straight-line basis. Income is reduced by the contractually agreed upon fees. This method differs from the fair value method used to value investments in the financial statements because the amortized cost method is not designed to distribute to participants all unrealized gains and losses due to changes in the fair values. The net change in fair values of the investments is reported as an increase or decrease in cash and cash equivalents in the statement of net position.

As of June 30, 2023, the Agency investments (amount held in the Pool and fair value) were the following:

Investment Type	Investments Held in King County Investment Pool	Fair Value	Effective Duration
King County Investment Pool	$ 10,500,370	$ 10,307,474	.74 Years

Table 1 below shows investments (holding amount) in the King County Investment Pool ("Pool") by type of investment for fiscal year-end 2023 and 2022. While holdings in U.S. Agency Securities, Treasury Securities, and Corporate Notes decreased from the prior year, all other investment categories increased. All investments are compliant with Pool requirements. Impaired investments, set aside since 2008, are declining each year as payouts are received and/or settlements received.

Table 1- Note 2	June 30, 2023		June 30, 2022	
Portfolio - Distribution	**%**	**Holdings**	**%**	**Holdings**
U.S. Agency Securities	38.19%	4,008,222	45.90%	5,269,447
Commercial Paper	13.32%	1,398,411	11.70%	1,343,192
U.S. Agency Mortgage-backed Securities	0.01%	1,365	0.01%	1,148
Repurchase Agreements	3.03%	318,248	0.99%	113,655
Treasury Securities	28.52%	2,993,125	33.40%	3,834,412
Corporate Notes	1.70%	178,775	2.90%	332,928
Cash & Cash Equivalents	0.27%	28,686	0.00%	-
Local Government Investment Pool	14.95%	1,569,468	5.10%	585,494
Subtotal - Unimpaired Investments	100.00%	10,496,299	100.00%	11,480,276
Impaired Investments (Commercial Paper)		4,071		4,979
Total Investments Held in the King County Pool		**$ 10,500,370**		**$ 11,485,255**
1. Amounts may not add due to rounding				

As of June 30, 2023, total investments held in the Pool were $11,500,370, an 8.6% decrease from the prior year. The decrease was mainly due to a decrease in the per capita carryover balances as these balances are being spent down according to the approved budget.

At the end of the fiscal year, the Agency also recorded unrealized losses in the investments based on investment fair value data provided by the Treasurer (King County). Table 2 shows the change in the fair value of investments as of June 30, 2023 compared to the prior year:

Table 2 - Note 2	FY23			FY22		
Fair Value of Investments	**Investments Held in King County Investment Pool**	**Fair Value Ratio**	**Fair Value**	**Investments Held in King County Investment Pool**	**Fair Value Ratio**	**Fair Value**
Unimpaired Investments	$ 10,496,299	*98.18%*	$ 10,305,266	$ 11,480,276	*98.00%*	$ 11,250,671
Impaired Investments	4,071	*54.23%*	2,208	4,979	*59.67%*	2,971
Total Investments	**$ 10,500,370**		**$ 10,307,474**	**$ 11,485,255**		**$ 11,253,642**
1. Amounts may not add due to rounding						

The total fair value of investments decreased 8.4% from the prior year due to the decreased cash balances. The decrease in fair value resulted in the recognition of a net unrealized gain of $38,718 mainly due to a slight increase in the fair value ratio for unimpaired investments from 98.00% to 98.18%.

Impaired Investments
At fiscal year-end, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (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. King County expects these payments to continue for 5 to 10 years. At the end of FY23, the Agency's share of the impaired investment pool principal was $3,945 (maximum risk of loss) and the Agency's fair value of these investments at fiscal year-end was $2,208. Per the Agency's financial policy, we maintain an interest income reserve in the event there are unplanned realized investment losses.

Interest Rate Risk
As of June 30, 2023, the Pool's average duration was .74 years. 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 – these are reported at year-end for participants to

include in their annual reports. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk
As of June 30, 2023, 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, corporate notes (rated at least "A"), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1"), 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
Table 3, below, lays out the reconciliation between the total investments held in the Pool shown above in Table 2 and the amount of Cash and Cash Equivalents reported on the financial statements:

Table 3 - Note 2

Reconciliation to Financial Statements	June 30, 2023	June 30, 2022
Investments Held in King County Investment Pool	$ 10,500,370	$ 11,485,255
30th	(192,896)	(231,613)
Fair Value of Investments	$ 10,307,474	$ 11,253,642
Addback: Interest Earned but not received	27,711	
Reconciliation Items - timing & adjustments	53,300	10,311
Outstanding Checks - not cleared	(330,667)	(67,382)
Petty Cash	99	99
Financial Statements (Book Value)	**$ 10,057,918**	**$ 11,196,669**

1. Amounts may not add due to rounding

The book value (financial statement amount) decreased from 2022 to 2023 mainly because of the decrease in cash balances (per capita).

NOTE 3 – ACCOUNTS RECEIVABLE

Total receivables (net of the allowance for doubtful accounts) on June 30, 2023 were $3.1 million, a $1.8 million increase from the prior year primarily as the result of an increase in accrued grant receivables at fiscal year-end. Supplemental income (per capita) receivables increased as jurisdictions paid annual assessments later than the prior year pattern.

Accounts Receivable			
Table 1- Note 3			
Accounts Receivable	**June 30, 2023**	**June 30, 2022**	**Change**
Registration Program Fees Receivable	$ 362,245	$ 306,695	$ 55,550
Allowance for Doubtful Accounts	(197,014)	(164,388)	(32,626)
Net Registration Program Receivables	165,231	142,307	22,924
State and Federal Grants Receivable	2,170,597	652,622	1,517,975
Supplemental Income (Per Capita) Fees Receivable	750,533	459,754	290,779
Other Receivables	958	33,317	(32,358)
Total Receivables (Net)	**$ 3,087,320**	**$ 1,288,000**	**$ 1,799,320**
Totals may not add due to rounding			

NOTE 4– CAPITAL ASSETS

Major expenses for capital assets, including major repairs that increase useful lives, are capitalized if they are greater than $5,000. 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 2023, the Agency acquired $205,799 in capital assets and retired $13,085 in vehicles. The 2023 purchases included agency vehicles and air monitoring equipment. At year-end 2023, total capital assets were $2,008,302 and net capital assets, after accumulated depreciation of $1,230,099, were $778,203, an 7.5% increase from the prior year. Total depreciation expense for FY23 was $151,806.

The schedule of capital assets and accumulated depreciation as of fiscal year end 2023 is shown below:

Table 1- Note 4								
FY23 Capital Asset Rollforward		**Balance at June 30, 2022**		**Increases**		**Decreases**		**Balance at June 30, 2023**
Capital Assets, Being Depreciated:								
Vehicles	$	540,532	$	79,274	$	(13,085)	$	606,721
Computers		155,504		-		-		155,504
Office Equipment		14,570		-	-			14,570
Leasehold Improvements		111,551		-		-		111,551
Monitoring Equipment		993,431		126,525		-		1,119,956
Total Capital Assets Being Depreciated		1,815,587		205,799		(13,085)		2,008,302
Less accumulated depreciation for:								
Vehicles		251,072		59,547		(13,085)		297,534
Computers		154,384		1,121		-		155,504
Office Equipment		243		1,457		-		1,700
Leasehold Improvements		86,980		6,019		-		92,999
Monitoring Equipment		598,698		83,663		-		682,361
Total Accumulated Depreciation		1,091,377		151,806		(13,085)		1,230,099
Total Capital Assets Being Depreciated, Net	**$**	**724,210**	**$**	**53,993**	**$**	**-**	**$**	**778,203**
1. Totals may not add due to rounding								

NOTE 5 – ACCOUNTS PAYABLE

The accounts payable balance at fiscal year-end 2023 was $1,603,392, a $1,355,097 increase from the prior year. The overall increase was primarily due to an increase in the year-end accrual for grant-related payables. The percentage of payables that were current decreased from 95% in 2022 to 78.6% in 2023 – this was due to increased grant payables related to the receivables as mentioned above.

Table 1 - Note 5	**Accounts Payable Rollforward (July 1, 2022 - June 30, 2023)**				
	Beginning Balance July 1, 2022	**Additions**	**Modifications**	**Payments**	**Ending Balance June 30, 2023**
Accounts Payable	$ 248,295	6,258,460	(65,671)	(4,837,692)	$ 1,603,392

	Accounts Payable Aging	
	FY23	**FY22**
Current	$ 1,261,010	$ 235,851
1 to 30 Days Past Due	335,065	12,444
Over 30 Days Past Due	7,318	-
Total Accounts Payable	$ 1,603,392	$ 248,295
% Current	78.6%	95.0%
Totals may not add due to rounding		

NOTE 6 - PENSION PLANS

The following table represents the Agency's aggregate pension amounts for all plans subject to the requirements of GASB 68 for the year 2023:

Agency Pension Amounts - All Plans June 30, 2023	
Net Pension Liability (PERS Plan 1)	$ 1,086,154
Pension Assets (PERS Plan 2/3)	$ 1,891,923
Deferred outflow of resources	$ 2,316,129
Deferred inflows of resources	$ 2,080,242
Pension expense/expenditures	$ (275,622)

State Sponsored Pension Plans

Substantially all of the agency'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 98540-8380

Or the DRS ACFR 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 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. The AFC is the average of the member's 24 highest 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.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.02 percent. 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 2023 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee**
January - August 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Total	10.25%	6.00%
Covered Payroll	$	6,442,055

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee**
September - June 2023		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total - Plan 2	10.39%	6.00%
Covered Payroll	$	6,442,055

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.

<u>Contributions</u>

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 percent. 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 payrolls) for 2023 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	**Employer**	**Employee**
January - August 2022		
PERS Plan 2	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Total - Plan 2	10.25%	6.36%
Employee PERS Plan 3		Varies
Covered Payroll	$	6,442,055

PERS Plan 2/3		
Actual Contribution Rates	**Employer**	**Employee**
September - June 2023		
PERS Plan 2	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total - Plan 2	10.39%	6.36%
Employee PERS Plan 3		Varies
Covered Payroll	$	6,442,055

The Agency's actual PERS plan contributions were $283,546 to PERS Plan 1 and $471,307 to PERS Plan 2/3 for the year ended June 30, 2023.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation are summarized in the Actuarial Section of DRS' Annual Comprehensive Financial Report located on the DRS website. The actuarial assumptions used in the June 30, 2021 valuation were based on the results of the 2013-2018 Demographic Experience Study Report and the 2021 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2021 Actuarial Valuation Report. https://leg.wa.gov/osa/

The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan's normal cost (using the entry age cost method), assumed interest and actual benefit payments.

- Inflation: 2.75% total economic inflation; 3.25% salary inflation
- Salary Increases: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.00%

Mortality rates were developed using the Society of Actuaries' Pub.H-2010 mortality rates, which vary by member status (e.g., active, retiree, or survivor), as our base table. 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. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Change in Assumptions and Methods: Actuarial results that OSA provided within this publication reflect the following changes in assumptions and methods:

Assumption Changes:

• We updated the Joint-and-Survivor Factors and Early Retirement Factors in our model. These factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors recently provided to DRS for future implementation that reflect current demographic and economic assumptions.
• We updated the economic assumptions based on the 2021 action of the PFC and the LEOFF Plan 2 Retirement Board. The investment return assumption was reduced from 7.50 (7.40 for LEOFF 2) to 7.00 percent, and the salary growth assumption was lowered from 3.50 to 3.25 percent. This action is a result of recommendations from our biennial economic experience study; please see the full report for additional details

Method Changes:
• Methods did not change from the prior contribution rate setting June 30, 2019 Actuarial Valuation Report (AVR). We introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVR; please see the Actuarial Assumptions and Methods section of the 2020 AVR for more information.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.0 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 pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.0 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.0 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 (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's 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%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
	100%	

Sensitivity of the Net Pension Liability/Asset
The table below presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0 percent) or 1-percentage point higher (8.0 percent) than the current rate.

Sensitivity to Changes	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
PERS 1 (liability)	$ 1,451,086	$ 1,086,154	$ 767,653
PERS 2/3 (asset)	$ 2,227,987	$ (1,891,923)	$ (5,276,690)

Pension Plan Fiduciary Net Position

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

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

On June 30, 2023, the Agency reported a net pension liability of $1,086,154 for PERS Plan 1 and a pension asset of $1,891,923 for PERS Plan 2/3 for its proportionate share of the net pension liabilities and assets as follows:

Agency Net Pension Liability & Assets June 30, 2023	
Net Pension Liability (PERS Plan 1)	$ 1,086,154
Pension Asset (PERS Plan 2/3)	$ 1,891,923

On June 30, 2023, the Agency's proportionate share of the collective net pension liabilities/assets was as follows:

Agency Proportionate Share of Washington State Pension Liability/Assets	Proportionate Share 6/30/21[1]	Proportionate Share 6/30/22[2]	Change in Proportion
PERS 1 (net pension liability)	0.042340%	0.039009%	-0.003331%
PERS 2/3 (pension asset)	0.054411%	0.051012%	-0.003399%
1. Used for the Agency's FY22 financial reports			
2. Used for the Agency's FY23 financial reports			

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 all plans except LEOFF 1.

Pension Expense

For the year ended June 30, 2023, the Agency recognized a net negative pension expense for the two plans combined:

Agency Pension Expense July 1, 2022 through June 30, 2023	
PERS 1	$ 414,390
PERS 2/3	(690,012)
Total	$ (275,622)

Deferred Outflows of Resources and Deferred Inflows of Resources

On June 30, 2023, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	July 1, 2022 through June 30, 2023 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		$ (180,008)
Changes of assumptions		$ -
Changes in proportion and differences between contributions and proportionate share of contributions		$ -
Contributions subsequent to the measurement date	283,546	$ -
Total	**$ 283,546**	**$ (180,008)**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 468,774	$ (42,828)
Net difference between projected and actual investment earnings on pension plan investments	-	(1,398,713)
Changes of assumptions	1,054,486	(276,102)
Changes in proportion and differences between contributions and proportionate share of contributions	38,016	(182,591)
Contributions subsequent to the measurement date	471,307	-
Total	**$ 2,032,583**	**$ (1,900,235)**

Total Plans 1,2 & 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 468,774	$ (42,828)
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ (1,578,721)
Changes of assumptions	$ 1,054,486	$ (276,102)
Changes in proportion and differences between contributions and proportionate share of contributions	$ 38,016	$ (182,591)
Contributions subsequent to the measurement date	$ 754,853	$ -
Total	**$ 2,316,129**	**$ (2,080,242)**

Deferred outflows of resources related to pensions resulting from the Agency's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	PERS 1
2023	$ (76,175)
2024	(69,187)
2025	(86,793)
2026	52,148
2027	-
Total Def. Inflow/Def. Outflow	$ (180,008)
Thereafter	

Year ended June 30:	PERS 2/3
2022	$ (498,897)
2023	(442,646)
2024	(486,034)
2025	634,641
2026	226,218
Thereafter	$ 227,761
Total Def. Inflow/Def. Outflow	$ (338,958)

NOTE 7 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

Under GASB 75, the Governmental Accounting Standards Board (GASB) released accounting standards for public postemployment benefit plans other than pension (OPEB). The Agency's plan, Washington State Public Employees Benefit Board (PEBB), is not administered through a qualifying trust and there is no special funding situation (medical and dental benefits are not pre-funded). GASB 75 requires a liability for OPEB obligations, known as the total OPEB liability, to be recognized in the financial statements of participating employers.

Plan Description

Eligible retirees and spouses are entitled to subsidies associated with postemployment medical benefits provided through the Public Employee Benefits Board (PEBB). The PEBB was created within the Washington State Health Care Authority to administer medical, dental, and life insurance plans for public employees and retirees. Puget Sound Clean Air Agency provides medical, dental, and voluntary long-term disability insurance to its employees through the Washington State Public Employees Benefit Board (PEBB), a single employer defined benefit plan. Agency employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees' retirement system and are vested in that system.

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

The Office of the State Actuary, a department within the primary government of the State of Washington, issues a publicly available Other Post-Employment Benefits Actuarial Valuation Report. The Other Post-Employment Benefits Actuarial Valuation Report may be obtained by writing to: Office of the State Actuary, PO Box 40914, Olympia, Washington 98504-0914 or it may be downloaded from the Office of the State Actuary website at http://leg.wa.gov/osa.

The subsidies provided by PEBB and valued in this report include the following:
-Explicit medical subsidy for post-65 retirees and spouses
-Implicit medical subsidy
-Implicit dental subsidy

The explicit subsidy, permitted under the Revised Code of Washington (RCW) 41.05.085, is a straightforward, set dollar amount for a specific group of people. The explicit subsidy lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. Annually, the HCA administrator recommends an amount for the next Calendar Year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the state Legislature. The explicit subsidy is the lesser of 50 percent of the monthly premium and the set dollar amount adopted by the Legislature. In 2022, the dollar amount remains at $183, which was last increased in 2020. The expectation is that this will increase in the future. These assumptions have a significant impact on the liability. The current valuation assumes the $183 explicit subsidy will remain constant through 2025.

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post-65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

GASB 75 requires the projection of the total cost of benefit payments to be based on claims costs or age-adjusted premiums approximating claims costs. Because claims costs are expected to vary by age and sex, we have used claims costs that vary by age and sex. The projection of retiree premiums is based on current amounts for the retirees' share of the premium, projected with the medical trend assumption.

Pay-as-you-go funding occurs when an employer chooses to contribute (pay) for benefits only when they occur or become due (after retirement). Before 2017, this cost was expensed as the Agency paid the current year's subsidies. However, the unfunded liability, which is the difference between what the Agency accrues (assuming on-going future payments) and what the Agency currently pays, was growing and was not accounted for under the pay-as-you-go method. The Agency funds the implicit and explicit subsidies on a pay-as-you-go basis, meaning that the Agency pays these costs as they occur or become due. There are no assets accumulating in a qualifying trust.

Annual OPEB Expense and Total OPEB Liability

For the 2023 expense and OPEB liability reporting, the valuation date is July 1, 2023. This is the date as of which the census data is gathered and the actuarial valuation is performed. The measurement date is June 30, 2023. This is the date as of which the total OPEB liability is determined. GASB 75 allows a lag of up to one year between the measurement date and the reporting date. No adjustment is required between the measurement date and the reporting date. The reporting date is June 30, 2023 or the Agency's fiscal year end. The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 for the reporting year FY2023:

Aggregate OPEB Amounts - All Plans	
	Reporting Period July 1, 2022 - June 30, 2023
OPEB Liabilities	$ 2,786,080
OPEB Assets	-
Deferred outflows of resouces	-
Deferred inflows of resource	-
OPEB Expense	$ (525,116)

The total OPEB liability is also reported as of the beginning of the measurement period. Total OPEB expense for the year is made up of service cost, or the portion of the actuarial present value of expected benefit payments that is attributed to the valuation year, interest on the total liability, the effects of plan changes, the recognition of economic/demographic gains or losses and the recognition of assumption changes or inputs. The components of OPEB expense for FY23 are shown below:

OPEB Expense	
Measurement Period (July 1, 2022 to June 30, 2023)	**Reporting Period July 1, 2022 - June 30, 2023**
Service cost	$ 97,622
Interest on total OPEB liability	122,364
Effect of plan changes	-
Recognition of Deferred Inflows/Outflows of Resources	-
Recognition of economic/demographic gains or losses Recognition of assumption changes or inputs	(745,102)
OPEB Expense	**$ (525,116)**

The total OPEB liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rates below, and then projected to the measurement dates.

Total OPEB Liability	
Measurement Period (July 1, 2022 to June 30, 2023)	**Reporting Period July 1, 2022 - June 30, 2023**
Total OPEB liability	$ 2,786,080
Covered employee payroll	7,410,478
Total OPEB liability as a % of covered employee payroll	37.60%

Valuation date June 30, 2023
Measurement date June 30, 2023

Discount Rate – Beginning of Measurement Year 3.54%
Discount Rate – End of Measurement Year 3.65%

Healthcare Cost Trend Assumptions - Initial rate ranges from about 2-16%, reaching an ultimate rate of approximately 3.8% in 2075.

Projected Salary Change - 3.25% + Service-Based Increases

Inflation Rate – 2.35%

The changes in the total OPEB liability are shown in the table below. The main reason for the decrease in the liability from the prior year is the changes in assumptions or inputs used by the State Actuary in calculating the state-wide liability as shown in the table below:

Changes in Total OPEB Liability	Reporting Period July 1, 2022 - June 30, 2023
Balance at June 30, 2022	**$ 3,405,944**
Service cost	97,622
Interest on total OPEB liability	122,364
Effect of plan changes	-
Effect of economic/demographic gains or losses	-
Effect of assumption changes or inputs	(745,102)
Expected benefit payments	(94,748)
Balance at June 30, 2023	**$ 2,786,080**

Employees Covered by Benefit Terms

At the census date of July 1, 2023 (reporting date of June 30, 2023), the following employees and retirees were covered by the benefit terms:

Employees Covered by Benefit Terms	
Active employees	65
Retirees	25
Total	**90**

Sensitivity Analysis

The following presents the total OPEB liability of the agency after a 1% decrease, no decrease, and a 1% increase in the discount rate and healthcare costs.

Sensitivity Analysis	**1% Decrease**	**Current**	**1% Increase**
Discount Rate	$ 3,231,733	2,786,080	$ 2,424,674
Healthcare Trend	$ 2,394,366	2,786,080	$ 3,278,809

Funded Status and Funding Progress

In order to fund the OPEB plan, the Agency would have to establish an irrevocable trust, which means that the Agency would no longer have control of the money put into the trust. Even if the Agency left the PEBB program, the Agency would not be able to get the money out of the trust. As of

June 30, 2023, the plan was 0% funded. See the “Required Supplementary Information – OPEB” schedule after the Notes section.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required payments of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements.

Actuarial Methods and Assumptions

We utilized the Washington State Actuary PEBB-AMM online tool for estimating the OPEB expense and liability. Additional assumptions in the tool include:

- Blended cost and premium assumptions for the PEBB medical plans used in the tool

- Assumed 3/4 of members select a UMP plan and 1/4 select a Kaiser Permanente (KP) plan.
  - UMP pre- and post-Medicare costs and premiums are equal to the Uniform Medical Plan (UMP) Classic.
  - The KP pre-Medicare costs and premiums are a 40/60 blend of KP Classic and KP Value.
  - The KP post-Medicare costs and premiums are equal to KP WA Medicare.

- Estimated retirement service for each active cohort based on the average entry age of 35, with a minimum service of 1 year. For example, an age 47 member is assumed to have 12 years of service. Service is a component of benefit eligibility.

- Assumptions for rates of decrement (retirement, disability, termination, and mortality) are based on the most recent PEBB *(OPEB AVR)* valuation as of the publication of this tool., with the following changes for simplicity:
  - Based on an average expected retirement age of 65, we applied active mortality rates for ages less than 65 and retiree mortality rates for ages 65+.

- Each cohort is assumed to be a 50/50 male/female split.

- We assume a 45% likelihood that current (and future) retirees cover a spouse. We further assume that eligible spouses are the same age as the primary member.
- We selected the age-based cohorts for the AMM Online Tool based upon the overall distribution of state employees and retirees that participate in PEBB.

- We did not include dental benefits when calculating the Total OPEB Liability

NOTE 8 – RISK MANAGEMENT

The Agency self-insures unemployment compensation for all of its employees. Actual employee claims are paid by the State Department of Employment Security and then reimbursed by the Agency. The agency reserve for potential unemployment compensation payments was $125,840 as of June 30, 2023. For FY23, the Agency paid out claims for unemployment $31,501.

For property and risk liability coverage, Puget Sound Clean Air Agency is a member of the Enduris Washington (Pool). 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. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two 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. For the Pool's fiscal year ending August 31, 2022, there were 527 Enduris members representing a broad array of special purpose districts throughout the state.

The Enduris program provides for various forms of joint self-insurance and reinsurance coverage for its members: Liability coverage, which includes: General Liability, Automobile Liability, Public Officials' Errors and Omissions liability, Terrorism liability and Employment Practices liability; Property coverage, which includes: Building and Contents, Mobile Equipment, Boiler and Machinery, and Business Interruption/Extra Expense; Automobile Physical Damage coverage; Cyber coverage; Crime blanket coverage; Named Position coverage; and an Identity Fraud reimbursement policy. Pollution and Cyber coverage are provided on a claims made coverage form. Crime coverage is provided on a discovery form. All other coverage is provided on an occurrence coverage form.

Members are responsible for a coverage deductible or co-pay on each covered loss. Each policy year members receive a Memorandum of Coverage (MOC) outlining the specific coverage, limits, and deductibles/co-pays that are applicable to them. In certain cases, the Pool may allow members to elect to participate in the programs at limits, coverage, deductibles, and co-pays that are specific to their needs. Enduris is responsible for payment of all covered losses above the member retention, up to the Pool self-insured retention (SIR). Enduris acquires excess/reinsurance from unrelated insurance companies to cover losses above the Pool's SIR up to the coverage maximum limit of liability. The tables below reflect the Pool's SIR, reinsurance limits and member deductibles/co-pays by coverage type.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays (1)
Liability:				
Comprehensive General Liability	Per Occurrence	$1 million	$20 million	$1,000 - $100,000
Automobile Liability	Per Occurrence	$1 million	$20 million	$1,000 - $100,000
Public Officials Errors and Omissions Liability	Each Wrongful Act Member Aggregate	$1 million	$20 million $20 million	$1,000 - $100,000
Terrorism Liability(2)	Per Occurrence Pool Aggregate	$500,000 $1 million	$0 Fully funded by Pool	$1,000 - $100,000
Employment Practices Liability	Per Occurrence Member Aggregate	$1 million	$20 million $20 million	20% Copay(3)

(1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible
(2) Terrorism liability is fully funded by the Pool i.e. no excess/reinsurance is procured.
(3) Members pay a 20% co-pay of costs. By meeting established guidelines, the co-pay may be waived.

Property (2):				
Buildings and Contents	Per Occurrence	$250,000	$1 billion	$1,000 - $250,000
Mobile Equipment	Per Occurrence	$250,000	$1 billion	$1,000 - $250,000
Boiler and Machinery (3)	Per Occurrence	Varies	$100 million	Varies
Business Interruption (BI)/ Extra Expense(EE) (4)	Per Occurrence	$250,000	$100 million (BI)/ $50 million (EE)	$1,000 - $250,000
Sublimit (5):				
Flood	Per Occurrence	$250,000	$50 million (shared by Pool members)	$1,000 - $250,000

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays (1)
Earthquake	Per Occurrence	5% of indemnity, subject to $250,000 minimum	$10 million (shared by Pool members)	$1,000 - $250,000
Terrorism Primary	Per Occurrence Pool Aggregate	$250,000	$100 million per occurrence $200 million aggregate	$1,000 - $250,000
Terrorism Excess	Per Occurrence APIP Per Occurrence APIP Aggregate	$500,000	$600 million/ Pool aggregate $1.1 billion/ per occurrence APIP program $1.4 billion/ APIP program aggregate	$0
Automobile Physical Damage (6)	Per Occurrence	$25,000; $100,000 for Emergency Vehicles; $250,000 for Emergency Vehicles valued >$750,000	$1 billion	$250 - $1,000
Crime Blanket (7)	Per Occurrence	$50,000	$1 million	$1,000
Named Position (8)	Per Occurrence	$50,000	$1 million	$1,000
Cyber (9)	Each Claim APIP Aggregate	$100,000	$2 million $40 million	20% Copay
Identity Fraud Expense Reimbursement (10)	Member Aggregate	$0	$25,000	$0

(1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible.
(2) Property coverage for each member is based on detailed property schedule. Scheduled items are covered to the extent of the cost of repair or replacement pursuant to the excess/reinsurance policy terms. Under the Alliant Property Insurance Program (APIP) Reinsurance carriers cover insured losses over $250,000 to the limit of $1 billion except for certain types of sub-limited property losses such as flood, earthquake, and terrorism.
(3) Boiler and Machinery self-insured retention for the Pool varies depending on motor horsepower.
(4) Business Interruption/ Extra expense coverage is based on scheduled revenue generating locations/operations. A limited number of members schedule and the rest are limited to $500,000 of coverage with a $2.5 million Pool maximum for undeclared exposure. The waiting period (deductible) is typically 24 hours but there are exceptions specific to the type of exposure covered.
(5) This sublimit list is simplified and is not all-inclusive. In addition, sub-limits are often shared or aggregated by all pool members and, in a few cases, are shared by all APIP members. Deductibles often vary by coverage sub-limit.
(6) Auto Physical Damage coverage includes comprehensive, named perils and collision. Coverage for each member is based on a detail vehicle schedule.
(7) Crime Blanket coverage (also referred to as "Employee Dishonesty Coverage with Faithful Performance" of $2,500 is provided to each member. Member's may elect to "buy-up" the level of coverage from $5,000 to $2 million.
(8) Named Position coverage is optional. Members may elect to schedule various employees, directors, and commissioners, with individual limits of between $5,000 and $1 million.
(9) Cyber coverage is included under the Pool's Property program. Members are subject to a 20% co-pay per loss and the Pool's SIR is tiered between $50,000 and $100,000 depending on the insured/members property TIV with an 8 hour waiting period. By meeting established guidelines, the co-pay may be waived. The reinsurance maximum limit of liability is $2 million, with various declared sub-limits.
(10) Identity Fraud Expense Reimbursement coverage is purchased by Enduris. Member claims do not have a deductible. There is a $25,000 limit per member.

Members make an annual contribution to fund the Pool. Since Enduris is a cooperative program, there is joint liability among the participating members. There were no claim settlements in excess of the insurance coverage in any of the last three policy years.

Upon joining the Pool, members are contractually obligated to remain in the Pool for a minimum of one year and must give notice 60 days before renewal in order to terminate participation. The Interlocal Governmental Agreement (formerly known as the Master Agreement) is automatically renewed each year unless provisions for withdrawal or termination are applied. 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 Interlocal Governmental Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and administers the claims.

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool's members elect the Board, and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for overseeing the business affairs of Enduris and providing policy direction to the Pool's Executive Director.

Enduris did not have any claim settlements that exceeded the limits in the last 3 years.

In FY23, claims of $15,812 were paid to the agency for auto physical damage (see Table 1). Risk and property insurance premiums paid in FY23 were $122,456. Insurance settlements have been less than insurance premiums in each of the last ten years.

Table 1- Note 8	Insurance Claims Paid Out		
FY23 Insurance Claims	**Claims Paid to Agency**	**Claims Paid to Third Parties**	**Total**
Auto Physical Damage	$ 15,812	-	$ 15,812
General Liability	-	-	-
Total	$ 15,812	-	$ 15,812

NOTE 9 - COMPLIANCE AND ENFORCEMENT AGENCY

The Agency is a compliance and enforcement agency with various cases pending before an administrative tribunal, entitled the Pollution Control Hearings Board ("PCHB"), involving the enforcement of the Washington State Clean Air Act and the regulations of the Agency. These cases are not causes of action against the Agency but are enforcement actions. Appeals of decisions by the PCHB can proceed, if filed, in superior court, with subsequent appeals to the appellate courts in the State of Washington. The Agency also sometimes seeks the payment of unpaid civil penalties in superior court. A listing of the open and closed cases is available from the Agency's legal department.

NOTE 10 – LEASES

The Agency is committed under various leases for a total of $3,196,004 beyond June 30, 2022.

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 common area maintenance adjustments based on the janitorial hourly labor rates, the Consumer Price Index, the cost of electricity and annual increases in property taxes. These adjustments are revised once per year based on the change in this data from the base year of 2017 for the period up through January 31, 2027 and are not included in the lease liability calculations. In addition to the office space, the Agency leases storage space in the same building location and from the same lessor. These amounts for the agency office space and storage are the only ones included in the lease liability calculations. A security deposit in the amount of one month's rent ($44,840) is reported as a deposit on the Statement of Net Position.

The Agency leases additional property within its four-county jurisdiction for its air quality data-collection monitoring sites and the components of the future commitments are included in the lease liability calculations. These are generally short-term leases that convert to month-to-month leases after the initial term – these are excluded from the lease calculations due to immateriality.

Other Leases

The Agency leases office equipment (copiers) and a postage machine. Lease arrangements for these are from the lease liability calculations since they are not material.

There are no impairment losses, subleases, sale-leasebacks or lease-leasebacks associated with any of the leases described above.

Table 2 shows the principal and interest requirements to maturity for the capitalized main office lease:

Table 2- Note 10	Principal and Interest Requirements to Maturity for Lease Liability (main office lease)			
	Year Ended June 30th	Principal	Interest	Total
	2024	508,474	149,375	657,849
	2025	565,823	106,678	672,501
	2026	627,926	59,227	687,153
	2027	395,229	10,596	405,825
	Total	2,097,452	325,876	2,423,328

Table 1 discloses the amount of lease assets capitalized:

Table 1 - Note 10	Lease Assets (Restated)				
	Beginning Balance at 7/1/2022	Adjustment to Restate Leases (see note)	Restated Beginning Balance at 7/1/2022	2023 Increases (Decreases)	Ending Net Balance at 6/30/23
Lease Asset:					
Monitoring Site Leases	44,579	(44,579)	-		-
Main Office Space Lease	2,373,825	739	2,374,564	(474,913)	1,899,651
Copier Equipment Lease	68,869	(68,869)	-		-
Total	2,487,274	(112,709)	2,374,564	(474,913)	1,899,651
Accumulated Amortization:					
Monitoring Site Leases	29,719	(29,719)	-	-	-
Main Office Space Lease	949,530	296	949,826	474,913	1,424,739
Copier Equipment Lease	45,913	(45,913)	-	-	-
Total	1,025,162	(75,336)	949,826	474,913	1,424,739

1. Prior year leases were restated to remove immaterial leases (GASB 87)

NOTE 11 – SUBSCRIPTION-BASED IT AGREEMENTS (SBITA)

The agency implemented GASB 96 in 2023 for disclosure on the financial statements. The agency had a number of immaterial, short-term software subscription arrangements and did not enter into a longer-term arrangement until January 2023. The financial statements for the prior year were not restated for the immaterial software subscription contracts. For 2023, the long-term contract with SHI International was reflected in the financial statements as a capitalized asset and a liability. This contract provides for the use of Microsoft software critical to the agency's IT software structure. The initial period of 36 months can be renewed for another 36 months (highly likely).

Table 1 discloses the amount of capitalized assets related to this software subscription arrangement:

Table 1 - Note 11	Software Subscription Arrangements Assets		
	Beginning Balance at 7/1/2022	FY23 Increases (Decreases)	Ending Net Balance at 6/30/23
Asset:			
SHI Int'l Agreement	670,278	(55,856)	614,421
Accumulated Amortization:			
SHI Int'l Agreement	-	55,856	55,856

Table 2 shows the principal and interest requirements to maturity for liability for subscription-based IT agreements (SBITA):

Table 2 - Note 11	Principal and Interest Requirements to Maturity for the SBITA Liability			
	Year Ended June 30th	Principal	Interest	Total
	2024	94,390	46,597	140,986
	2025	102,214	38,773	140,986
	2026	110,687	30,300	140,986
	2027	119,862	21,125	140,986
	2028	129,797	11,189	140,986
	2029	68,879	1,614	70,493

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

As of June 30, 2023, long-term liabilities increased by $1,349 from the prior year primarily due to the increase in the pension liability and the implementation of GASB 96 for subscription-based IT arrangements. The OPEB liability decreased $623,296 due to changes in assumptions for the calculation of that liability.

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. The non-current portion of compensated absences increased $40,879 due to the increase in the earned, but unused, paid leave (employees used less paid leave than they earned).

Table 1- Note 12	Non-Current Liabilities Rollforward				
	Beginning Balance 7/1/2022	Additions	Reductions	*Ending Balance 6/30/2023*	*Current Portion Due Within One Year*
Other Post Employment Benefits (OPEB) - non-current	$ 3,324,692		$ (623,296)	$ 2,701,396	$ 84,684
Lease Liability - non-current	1,909,762		(470,159)	$ 1,439,603	657,849
Subscription-based IT Arrangements Liability -non-current	-	484,841		$ 484,841	140,986
Compensated Absences - non-current	162,793	40,879		$ 203,672	647,292
Net Pension Liability	517,071	569,083		$ 1,086,155	-
Total Non-Current Liabilities	$ 5,914,319	$ 1,094,804	$ (1,093,455)	$ 5,915,668	$ 1,530,811
Totals may not add due to rounding.					

NOTE 13 – 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 14 – RESTRICTED COMPONENT OF NET POSITION

The Restricted component of Net Position consists of funds whose use is restricted by state law (certain fee programs), federal and state grant regulations, and contracts with external entities – it also includes now the net pension asset for PERS Plan 2. As of June 30, 2023, the Agency's restricted net position was $5,804,964, an increase of $428,400 due mainly to the increase in the asset related to the pension for Plan 2

NOTE 15 – SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. While somewhat modified, these measures have continued into 2023 and have been subject to change as increased and decreases in covid waves have occurred. A significant percentage of the workforce were working in a hybrid telework/in-office status – this may change in the future depending on needs.

Puget Sound Clean Air Agency
Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 1
As of June 30, 2023 (reporting date)
Last 10 Fiscal Years*

Reporting Date		**2023**		**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Measurement Date		6/30/2022		6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/31/2016	6/30/2015	6/31/2014
Employer's proportion of the net pension liability (asset)	%	0.039009%	%	0.042340%	0.042683%	0.044882%	0.475910%	0.053544%	0.055300%	0.056507%	0.056744%
Employer's proportionate share of the net pension liability (asset)	$	1,086,154	$	517,070	1,506,940	1,725,872	2,125,430	2,540,705	2,982,223	2,955,841	2,858,505
TOTAL	$	1,086,154	$	517,070	1,506,940	1,725,872	2,125,430	2,540,705	2,982,223	2,955,841	2,858,505
Covered payroll (at measurement date)*	$	6,442,055	$	6,528,942	6,498,489	6,292,958	6,185,736	6,635,087	6,496,674	6,370,814	6,101,162
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	16.86%	%	7.92%	23.19%	27.43%	34.36%	38.29%	45.90%	46.40%	46.85%
Plan fiduciary net position as a percentage of the total pension liability	%	76.56%	%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%

Notes to Schedule:

** As of measurement date; until a full 10-year trend is compiled, we are presenting information only for those years for which information is available*

Puget Sound Clean Air Agency
Schedule of Proportionate Share of the Net Pension Liability
PERS Plans 2 & 3
As of June 30, 2023 (reporting date)
Last 10 Fiscal Years*

Reporting Date		**2023**		**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Measurement Date		6/30/2022		6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/31/2016	6/30/2015	6/31/2014
Employer's proportion of the net pension liability (asset)	%	0.051021%	%	0.054411%	0.055865%	0.057905%	0.059132%	0.066762%	0.069004%	0.070816%	0.070962%
Employer's proportionate share of the net pension liability (asset)	$	(1,891,923)	$	(5,420,211)	714,482	562,454	1,009,626	2,319,660	3,474,297	2,530,296	1,434,398
TOTAL	$	(1,891,923)	$	(5,420,211)	714,482	562,454	1,009,626	2,319,660	3,474,297	2,530,296	1,434,398
Covered payroll (at measurement date)*	$	6,442,055	$	6,528,942	6,498,489	6,292,958	6,185,736	6,635,087	6,496,674	6,370,814	6,101,162
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	-29.37%	%	-83.02%	10.99%	8.94%	16.32%	34.96%	53.48%	39.72%	23.51%
Plan fiduciary net position as a percentage of the total pension liability	%	106.73%	%	120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%

Notes to Schedule:

- As of the reporting dates of 6/30/2022 and 6/30/2023, PERS Plan 2 reports an asset rather than a liability

** As of measurement date; until a full 10-year trend is compiled, we are presenting information only for those years for which information is available*

Puget Sound Clean Air Agency
Schedule of Employer Contributions
PERS Plan 1
For the year ended June 30, 2023 (reporting date)
Last 10 Fiscal Years*

Reporting Date	2023	2022	2021	2020	2019	2018	2017	2016	2015
Measurement Date	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/31/2016	6/30/2015	6/31/2014
Statutorily or contractually required contributions	$ 283,546	$ 239,074	315,384	309,346	321,823	318,115	322,085	314,911	259,704
Contributions in relation to the statutorily or contractually required contributions*	$ (283,546)	$ (239,074)	(315,384)	(309,346)	(321,823)	(318,115)	(322,085)	(314,911)	(259,704)
Contribution deficiency (excess)	$ -	$ -	-	-	-	-	-	-	-
Covered payroll (at measurement date)*	$ 6,442,055	$ 6,528,942	6,498,489	6,292,958	6,185,736	6,635,087	6,496,674	6,370,814	6,101,162
Contributions as a percentage of covered payroll	% 4.40%	% 3.66%	4.85%	4.92%	5.20%	4.79%	4.96%	4.94%	4.26%

Notes to Schedule:

** As of measurement date; until a full 10-year trend is compiled, we are presenting information only for those years for which information is available*

Puget Sound Clean Air Agency
Schedule of Employer Contributions
PERS Plans 2 & 3
For the year ended June 30, 2023 (reporting date)
Last 10 Fiscal Years*

Reporting Date	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Measurement Date	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/31/2016	6/30/2015	6/31/2014
Statutorily or contractually required contributions	$ 471,307	$ 409,814	515,423	514,650	472,928	456,272	407,775	398,356	315,450
Contributions in relation to the statutorily or contractually required contributions*	$ (471,307)	$ (409,814)	(515,423)	(514,650)	(472,928)	(456,272)	(407,775)	(398,356)	(315,450)
Contribution deficiency (excess)	$ -	$ -	-	-	-	-	-	-	-
Covered payroll (at measurement date)*	$ 6,442,055	$ 6,528,942	6,498,489	6,292,958	6,185,736	6,635,087	6,496,674	6,370,814	6,101,162
Contributions as a percentage of covered payroll	% 7.32%	% 6.28%	7.93%	8.18%	7.65%	6.88%	6.28%	6.25%	5.17%

Notes to Schedule:

** As of measurement date; until a full 10-year trend is compiled, we are presenting information only for those years for which information is available*

Puget Sound Clean Air Agency

Schedule of Changes in Total OPEB Liability and Related Ratios

Retiree Medical and Dental Benefits under the Public Employees Benefits Board (PEBB)

For the year ended June 30, 2023 (plan measurement date)

Last 10 Fiscal Years*

Measurement Date --- >	6/30/2023	6/30/2022	6/30/2021	6/30/2020	6/30/2018	6/30/2017	6/30/2016
Reporting Date --->	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Service cost	$ 97,622	$ 163,019	$ 176,526	$ 159,266	$ 160,930	$ 195,660	NA
Interest	122,364	84,797	95,819	135,227	137,364	118,630	NA
Changes in benefit terms	-	-	-	-	-	-	NA
Differences between expected and actual experience	-	-	-	-	-	-	NA
Changes of assumptions	(745,102)	(571,661)	(599,279)	236,740	(204,917)	(554,783)	NA
Expected benefit payments	(94,748)	(65,593)	(73,310)	(79,256)	(51,088)	(49,589)	NA
Change	(619,864)	(389,438)	(400,244)	451,977	42,289	(290,081)	
Total OPEB liability, beginning	$ 3,405,944	$ 3,795,382	$ 4,195,626	$ 3,743,649	$ 3,701,360	$ 3,991,441	NA
Total OPEB liability, ending	$ 2,786,080	$ 3,405,944	$ 3,795,382	$ 4,195,626	$ 3,743,649	$ 3,701,360	NA
Covered Payroll (as of measurement date)	7,410,478	6,442,055	6,528,942	6,498,489	6,185,736	6,635,087	
Total OPEB liability as a % of covered employee payroll	37.60%	52.87%	58.13%	64.56%	60.52%	55.78%	

**Until a full 10-year trend is compiled, only information for those years available is presented.*

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits.

See notes to the financials - assumption changes related to the discount rate used, projected healthcare costs, significant hiring or terming of employees, and significant retirements can affect the trends in the amounts reported for OPEB.

Puget Sound Clean Air Agency
Schedule of Expenditures of Federal Awards
July 1, 2022 - June 30, 2023

MCAG No. 1024

Federal Agency (Pass Through Agency)	Federal Program	ALN	Other Award Number	Expenditures (whole dollars): From Pass-Through Awards	Expenditures (whole dollars): From Direct Awards	Expenditures (whole dollars): Total	Passed Through to Subrecipients	Note
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act								
Environmental Protection Agency, Office of Air and Radiation (via Washington State Department of Ecology)	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating To Clean Air Act	66.034	AQPM25-1924-PSCAA-00011	$ 100,215	$ -	$ 100,215	$ -	1,2 & 4
	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating To Clean Air Act	66.034		$ -	$ 254,176	$ 254,176	$ 119,861	1,2,3 & 4
	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating To Clean Air Act	66.034		$ -	$ 62,660	$ 62,660		1,2 & 4
	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating To Clean Air Act	66.034		$ -	$ 265	$ 265		1,2 & 4
	Total Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act			$ 100,215	$ 317,102	$ 417,317	$ 119,861	
National Clean Diesel Emissions Reduction Program								
	National Clean Diesel Emissions Reduction Program/DERA Clean Diesel Funding Assistance Program	66.039		$ -	$ 2,280	$ 2,280		1,2,3 & 4
	National Clean Diesel Emissions Reduction Program/DERA Clean Diesel Funding Assistance Program	66.039		$ -	$ 984,014	$ 984,014		1,2,3 & 4

The accompanying notes are an integral part of this schedule.

Puget Sound Clean Air Agency
Schedule of Expenditures of Federal Awards
July 1, 2022 - June 30, 2023

Federal Agency (Pass Through Agency)	Federal Program (MCAG No. 1024)	ALN	Other Award Number	Expenditures (whole dollars) From Pass-Through Awards	From Direct Awards	Total	Passed Through to Subrecipients	Note
	Total National Clean Diesel Emissions Reduction Program/DERA Clean Diesel Funding Assistance Program			$ -	$ 986,295	$ 986,295	$ -	
Diesel Emissions Reduction Act (DERA) State Grants								
Environmental Protection Agency, Office of the Administrator (via Washington State Department of Ecology)	Diesel Emissions Reduction Act (DERA) State Grants/Washington State Clean Diesel Grant Program	66.040	OTGP-2020-PSCAA-00024	$ 33,527	$ -	$ 33,527	$ 32,695	1,2,3 & 4
Environmental Protection Agency, Office of the Administrator (via Washington State Department of Ecology)	Diesel Emissions Reduction Act (DERA) State Grants/Washington State Clean Diesel Grant Program	66.040	OTGP-2021-PSCAA-00042	$ 374,278	$ -	$ 374,278	$ 368,962	1,2,3 & 4
Environmental Protection Agency, Office of the Administrator (via Washington State Department of Ecology)	Diesel Emissions Reduction Act (DERA) State Grants/Washington State Clean Diesel Grant Program	66.040	AQDERA-2021-PSCAA-00002	$ 232,890	$ -	$ 232,890	$ 230,928	1,2,3 & 4
	Total Diesel Emissions Reduction Act (DERA) State Grants			$ 640,694	$ -	$ 640,694	$ 632,586	
Performance Partnership Grants								
Environmental Protection Agency, Office of the Administrator (via Washington State Department of Ecology)	Performance Partnership Grants	66.605	AQCORE-2123-PSCAA-00018	$ 940,832	$ -	$ 940,832	$ -	1,2 & 4
	Total Performance Partnership Grants			$ 940,832	$ -	$ 940,832	$ -	
	Total Federal Expenditures			**$ 1,681,742**	**$ 1,303,396**	**$ 2,985,138**	**$ 752,447**	

The accompanying notes are an integral part of this schedule.

Puget Sound Clean Air Agency
Notes to the Schedule of Expenditures of Federal Awards
Fiscal Year 2023 (July 1, 2022 - June 30, 2023)

Note 1 – Basis of Accounting

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

Note 2 – Federal De Minimis Indirect Cost Rate

The Agency has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 – Federal Indirect Cost Rate(s)

The Agency has used their federally approved indirect rates, all of which are lower than the current year federally approved indirect rate.

The amount expended includes $56,281 claimed as an indirect cost recovery distributed as follows:

Schedule 16 Notes				
	Grant #	Title	Indirect Rate	Indirect Cost Recovery
	XA-01J87901	Community Scale Air Toxics 2020	61.37%	50,745
	OTGP-2020-PSCAA-00024	Ecly/DERA HC Engine Repl- Federal-00024	61.37%	316
	DE-01J40801	DERA/EPA Marine Engine Repl - 40801	61.37%	867
	DE-01J98501	BNSF Diesel to Electric Yard Truck Replacement DERA (98501)	61.37%	1,557
	OTGP-2021-PSCAA-00042	Ecly/DERA eCHE Crgo Hdlg Equipment Grant	61.37%	2,021
	AQDERA-2021-PSCAA-00002	00002 Ecly/DERA Crgo Hlg Eq El 2021 FED	65.29%	775
				$56,281

Note 4 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Puget Sound Clean Air Agency's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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.

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