



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Discovery Clean Water Alliance
Clark County

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

Published May 17, 2018

Report No. 1021267





Office of the Washington State Auditor

Pat McCarthy

May 17, 2018

Board of Directors
Discovery Clean Water Alliance
Vancouver, Washington

Report on Financial Statements

Please find attached our report on the Discovery Clean Water Alliance's financial statements.
We are issuing this report in order to provide information on the Alliance's financial condition.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	4
Independent Auditor's Report on Financial Statements.....	6
Financial Section.....	9
About the State Auditor's Office.....	32

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Discovery Clean Water Alliance
Clark County
January 1, 2017 through December 31, 2017**

Board of Directors
Discovery Clean Water Alliance
Vancouver, 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 Discovery Clean Water Alliance, Clark County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Alliance's basic financial statements, and have issued our report thereon dated May 10, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy
State Auditor
Olympia, WA

May 10, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Discovery Clean Water Alliance Clark County January 1, 2017 through December 31, 2017

Board of Directors
Discovery Clean Water Alliance
Vancouver, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Discovery Clean Water Alliance, Clark County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Alliance's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Alliance's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Discovery Clean Water Alliance, as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.


Other Matters

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2018 on our consideration of the Alliance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alliance's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

May 10, 2018

FINANCIAL SECTION

**Discovery Clean Water Alliance
Clark County
January 1, 2017 through December 31, 2017**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

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

Statement of Cash Flows – 2017

Notes to Financial Statements – 2017

**DISCOVERY CLEAN WATER ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017**

INTRODUCTION

Management of Discovery Clean Water Alliance (Alliance) and readers of the Alliance's financial statements are provided this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2017.

The Alliance is a municipal corporation established under the Joint Municipal Utility Services Act (RCW 39.106.010). The Alliance contracts with Clark Regional Wastewater District (District) for Administrative Lead services. Administrative Lead services include executive and administrative services, such as agency coordination, clerk to the Board, public outreach and risk management services; financial and treasury services including preparation of operating and capital budgets, financial reporting, creation and compliance of financial policies, debt and investment management, and accounts payable processing; and capital program management services including preparation of the capital plan, capital management policies, capital project delivery and treatment capacity monitoring.

The following Management's Discussion and Analysis is intended to serve as an introduction to the Alliance's basic financial statements, the notes to the financial statements and, if applicable, any other supplementary information required as part of the basic financial statements.

The Alliance is legally required to adopt a budget per RCW 39.106.05. The Board of Directors adopts a biennial operating and capital budget. Budgets are increased or decreased as deemed necessary through Board-adopted budget amendments.

The Alliance's financial statements present a Special Purpose Government organized under the laws of the State of Washington, Revised Code of Washington (RCW) Chapter 39.106 – the Joint Municipal Utility Services Act (JMUSA). The Alliance is not a segment of any other local (Clark County) government, nor is it a component unit thereof. The financial statements are presented in a manner similar to a private-sector business.

The Alliance uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities (i.e. wastewater treatment service). The Alliance reports its activities as an enterprise fund, which is a type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities and, as such, the Alliance uses the enterprise fund to account for all of its activities.

The *Statement of Net Position* presents information on all of the Alliance's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Alliance is improving or deteriorating.

**DISCOVERY CLEAN WATER ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017**

The *Statement of Revenues, Expenses and Changes in Fund Net Position* displays the change in the Alliance's net position during the most recent fiscal year. All changes in net position are reported as soon as the underlying event occurs regardless of the timing of related cash flows.

The *Statement of Cash Flows* presents the cash flow from operations, non-capital financing and from capital and related financing, as well as from investing activities.

Financial Highlights

- For 2017, the assets of the Alliance exceeded its liabilities by \$102,230,190. Of this amount, \$7,692,649 is classified as unrestricted and may be used to meet the Alliance's ongoing obligations. The Alliance has restricted funds of \$1,195,500 at December 31, 2017 for debt service reserves. This constitutes a total increase of \$2,203,246 in net position from 2016, due to 2017 operating income.
- Regional Service Charges of \$11,106,442 were billed to Battle Ground and the District in 2017. This constitutes all operating revenues of the Alliance.
- The Alliance was charged \$4,212,491 by other governments for treatment plant operator services.

Assets, Liabilities and Net Position

December 31	2017	2016	2017 to 2016 Change	%
<i>Assets</i>				
Current and other assets	\$ 9,764,316	\$ 9,459,698	\$ 304,618	3%
Capital assets	120,608,779	121,520,509	(911,730)	-1%
Total assets	<u>130,373,095</u>	<u>130,980,207</u>	<u>(607,112)</u>	0%
<i>Liabilities</i>				
Long-term liabilities	27,266,738	30,143,559	(2,876,821)	-10%
Other liabilities	876,167	809,704	66,463	8%
Total liabilities	<u>28,142,905</u>	<u>30,953,263</u>	<u>(2,810,358)</u>	-9%
<i>Net position</i>				
Net investment in capital assets	93,342,041	92,099,316	1,242,725	1%
Restricted	1,195,500	1,195,500	-	0%
Unrestricted	7,692,649	6,732,128	960,521	14%
Total net position	<u>\$ 102,230,190</u>	<u>\$ 100,026,944</u>	<u>\$ 2,203,246</u>	

**DISCOVERY CLEAN WATER ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Investment in capital assets includes land, buildings, pump stations, transmission lines, machinery and equipment. The Alliance's total net capital assets as of December 31, 2017 were \$120.6 million, a decrease of \$0.9 million, due to normal depreciation expense and \$2.3 million in capital project costs during 2017. For further explanations of the capital asset activity of the Alliance, please refer to Note 3, Capital Assets (page 29).

Long-Term Liabilities

- On September 2, 2015, the Alliance issued \$11,955,000 in new revenue bonds to finance the defeasance of the District's 2005 revenue bonds (\$8,655,000) and for reconstruction and repair of existing systems (\$3,300,000). The outstanding balance owed at December 31, 2017 is \$10,390,000.
- In 2017, long-term liabilities decreased by \$2.9 million from 2016 due to scheduled debt service payments.
- Loans payable of \$16,876,738 at year end include the following:
 - \$15,436,206 for PWTF loans granted for the Phase IV construction of the Salmon Creek Treatment Plant
 - \$526,450 on the SRF loan used for Phase IV construction of the Salmon Creek Wastewater Management System
 - \$914,082 on the SRF loan used for the Ridgefield Treatment Plant upgrade
- Please refer to Note 5, Long-Term Liabilities on pages 32-34, for more detailed information regarding long-term debt activity.

**DISCOVERY CLEAN WATER ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017**

Revenues and Expenses

December 31	2017	2016	2017 to 2016 Change	%
REVENUES				
Regional Service Charges	\$ 11,106,442	\$ 10,445,981	\$ 660,461	6%
Non-operating - interest earnings	53,977	38,064	15,913	42%
Total revenue	<u>11,160,419</u>	<u>10,484,045</u>	<u>676,374</u>	6%
EXPENSES				
Operating expenses	8,541,204	9,531,103	(989,899)	-10%
Non-operating - interest expense	410,374	503,234	(92,860)	-18%
Non-operating - miscellaneous	5,595	-	5,595	0%
Total expenses	<u>8,957,173</u>	<u>10,034,337</u>	<u>(1,077,164)</u>	-11%
CHANGE IN NET POSITION	2,203,246	449,708	1,753,538	390%
NET POSITION, January 1	<u>100,026,944</u>	<u>99,673,441</u>	<u>353,503</u>	0%
PRIOR PERIOD ADJUSTMENTS	<u>-</u>	<u>(96,205)</u>	<u>96,205</u>	
NET POSITION, December 31	<u>\$ 102,230,190</u>	<u>\$ 100,026,944</u>	<u>\$ 2,203,246</u>	

- The Alliance received \$11,106,442 in Regional Service Charge (RSC) revenues from two Members, the District and Battle Ground. These RSCs represented 100% of the Alliance's operating revenues in 2017. RSCs increased by \$660,461 or 6.3% in 2017 over 2016. The increase in RSCs was primarily driven by increased rates due to higher levels of capital project activity for 2017.
- Operating expenses in 2017 totaled \$8,541,204, a decrease of \$989,899 (or 10.4%) from 2016. The decrease was primarily driven by a reduction in repair projects in 2017 from 2016. Treatment plant operations represent 49.3% of total operating expenses, while depreciation represents 37.8% of total expenses.

Economic Factors and 2017/2018 Budget

In its third year of full operations, the Alliance continued to experience a positive operating income for 2017, continuing to build reserves per the operational framework between Member agencies. At the same time, the Alliance has continued to pay down debt associated with the nine Regional Assets and also continued to implement a capital plan to assist in forecasting of cash needs for the repair and replacement of the existing wastewater collection and treatment infrastructure and construction of new infrastructure when necessary.

**DISCOVERY CLEAN WATER ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017**

Requests for Information

This financial report is designed and intended to provide a general overview of the Alliance's financial position. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Discovery Clean Water Alliance, Treasurer, PO Box 8979, Vancouver, WA 98668-8979 or www.discoverycwa.org.

**DISCOVERY CLEAN WATER ALLIANCE
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	2017
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 5,903,243
Prepaid expenses	179,457
Due from other governments	215,867
Total current assets	6,298,567
NONCURRENT ASSETS	
Contracts receivable	2,270,249
Restricted cash and cash equivalents	1,195,500
Capital assets not being depreciated:	
Land	135,131
Construction work in progress	3,533,765
Total capital assets, not being depreciated	3,668,896
Capital assets being depreciated:	
Improvements other than buildings	126,528,580
Equipment	80,670
Less: accumulated depreciation	(9,669,367)
Total capital assets being depreciated	116,939,883
Total noncurrent assets	124,074,528
Total assets	130,373,095
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accounts payable	797,062
Interest payable	79,105
Sewer revenue bonds, current	1,195,000
Loans payable, current	2,039,568
Total current liabilities	4,110,735
NONCURRENT LIABILITIES	
Sewer revenue bonds, long term	9,195,000
Loans payable, long term	14,837,170
Total noncurrent liabilities	24,032,170
Total liabilities	28,142,905
NET POSITION	
Net investment in capital assets	93,342,041
Restricted - debt service reserve	1,195,500
Unrestricted	7,692,649
Total net position	\$ 102,230,190

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

**DISCOVERY CLEAN WATER ALLIANCE
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2017**

	2017
OPERATING REVENUES	
Regional Service Charges	\$ 11,106,442
Total utility operating revenues	11,106,442
OPERATING EXPENSES	
Administrative Lead services	505,783
Professional services	36,630
Treatment plant operations	4,212,491
Repairs and maintenance	409,250
Insurance	146,739
Miscellaneous	6,022
Depreciation	3,224,289
Total operating expenses	8,541,204
OPERATING INCOME	2,565,238
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment revenue	53,977
Loss on disposal of capital assets	(5,595)
Interest expense	(410,374)
Total non-operating revenues (expenses)	(361,992)
CHANGE IN NET POSITION	2,203,246
TOTAL NET POSITION, January 1	100,026,944
TOTAL NET POSITION, December 31	\$ 102,230,190

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

**DISCOVERY CLEAN WATER ALLIANCE
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017**

	2017
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 10,890,575
Cash payments to suppliers	(5,001,744)
Insurance proceeds	250,000
Net cash from operating activities	6,138,831
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on long-term debt	(2,876,821)
Interest paid on long-term debt	(428,050)
Acquisition and construction of capital assets	(2,749,221)
Net cash from capital and related financing	(6,054,092)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	53,977
Net cash from investing activities	53,977
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	138,716
CASH AND CASH EQUIVALENTS, January 1	6,960,027
CASH AND CASH EQUIVALENTS, December 31	\$ 7,098,743
Cash and cash equivalents	5,903,243
Restricted cash and cash equivalents	1,195,500
CASH AND CASH EQUIVALENTS, December 31	7,098,743

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

**DISCOVERY CLEAN WATER ALLIANCE
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017**

	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	
Utility operating income (loss)	\$ 2,565,238
Adjustments to reconcile operating income to net from operating activities	
Depreciation and amortization expense	3,224,289
(Increase) decrease in prepaid expenses	351,215
Increase (decrease) in accounts payable	515,206
(Increase) decrease in contracts receivable	(301,250)
Increase (decrease) in due to other governments	(215,867)
Total adjustments	3,573,593
Net cash from operating activities	\$ 6,138,831
 NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Loss on disposal of capital assets	(5,595)
Change in capital related accounts payable	(431,067)

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

Note 1 – General Description of the Alliance and Summary of Significant Accounting Policies

The financial statements of the Alliance 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 significant accounting policies are described below.

Reporting entity - Discovery Clean Water Alliance (Alliance) was incorporated January 4, 2013 under the empowerment of RCW 39.106 – the Joint Municipal Utility Services Act (JMUSA). In 2012, Clark County (County), Clark Regional Wastewater District (District), City of Battle Ground (Battle Ground) and City of Ridgefield (Ridgefield) reached agreement on the appropriate form of a regional wastewater partnership to meet the needs of the community for the next generation. An Interlocal Formation Agreement (IFA) was signed on September 27, 2012, representing the culmination of five years of study and providing the foundation for the creation of the Alliance.

As required by GAAP, management has considered all potential component units in defining the reporting entity. Utilizing the criteria set forth by GASB for component units, the Alliance has evaluated all legal entities that would potentially qualify as a component unit and be included in the financial statements of the Alliance. The Alliance concludes it has no component units. The Alliance's financial statements include the financial position and results of operation of a single enterprise that the Alliance manages and has custodial responsibility over the assets and liabilities therein.

Basis of accounting and presentation - The accounting records of the Alliance are maintained in accordance with methods prescribed by the State Auditor under authority chapter 43.09. The Alliance uses the Uniform Chart of Accounts as prescribed within the Budgeting, Accounting and Reporting System (BARS) Manual for Water and Sewer Districts reporting in conformity with GAAP.

The Alliance accounts for its operations within a proprietary fund, which is similar to a private business enterprise. The Alliance's statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

The Alliance distinguishes between operating and non-operating revenues and expenses. Operating revenues are derived from the regional wastewater treatment services provided to the Members and ratepayers of the Members. Operating expenses include the cost of providing wastewater treatment services (i.e. maintenance, engineering and administration), as well as depreciation and amortization of capital assets. All revenues and expenses not meeting the above criteria are reported as non-operating revenues and expenses, such as interest income and expense.

Cash & Cash Equivalents - The Alliance acts as its own Treasurer. The Alliance invested funds in excess of the operating reserve in the Clark County Investment Pool (CCIP) per resolutions and an investment policy adopted by the Alliance Board. All amounts invested in the CCIP are considered cash equivalents. For purposes of the Statements of Net Position and Cash Flows, the Alliance considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. See Note 2 on pages 27-28 for detailed information about the Alliance's cash and cash equivalents.

Note 1 – General Description of the Alliance and Summary of Significant Accounting Policies (Continued)

Receivables - Accounts receivable represent Member Regional Service Charges for treatment services, which are recognized as earned. Contracts receivable represent operating and repair and replacement reserves held by Ridgefield and Clark County, who provide treatment plant operation services for the Alliance.

Restricted Assets - These accounts contain reserves for debt service. Reserves set aside for the repayment of revenue bonds are classified as restricted assets on the Statement of Net Position because their use is limited by applicable bond covenants. Specific debt service reserve requirements are described in Note 5, Long-Term Liabilities (pages 32-34).

Capital Assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g., treatment plants, pump stations, and transmission lines), are reported in a single enterprise fund. Capital assets are defined by the Alliance as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The Alliance records project costs in a construction work-in-progress account (CWIP) until final completion. Depreciation is computed on capital assets when the assets are placed into service. Capital assets of the Alliance are depreciated using the straight-line method over the following estimated useful lives:

Buildings	50 years
Infrastructure	50 years
Machinery, furniture and equipment	5 - 15 years

See Note 3, Capital Assets (page 29) for further information.

Payables – Accounts payable and other current liabilities consist of amounts owed to private individuals or organizations for goods and services for amounts for which checks have not yet been prepared.

Due to or from Other Governments - The Alliance currently contracts for Administrative Lead services with the District as the Alliance has no employees. This contract allows the Alliance to reimburse the District for salaries and benefits of District employee time spent on Administrative Lead services. The Alliance also contracts with Members to provide treatment plant operations services. Members of the Alliance pay monthly Regional Service Charges to the Alliance.

Long-Term Debt – See Note 5, Long-Term Liabilities (pages 32-34).

Note 2 – Deposits & Investments

Deposits – The Alliance is legally authorized to invest in the types of investments included in the Revised Code of Washington (RCW) 36.29.020. All of the investments and deposits held at December 31, 2017 comply with the provisions of that code section and the Alliance’s investment policy adopted under Resolution 2013-12. Cash on hand at December 31, 2017 was \$540,549, held entirely in a checking account.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Alliance would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The Alliance’s deposits and certificates of deposit are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The Alliance does not have a custodial credit risk policy. No bank balances or investments are exposed to custodial credit risk.

Investments– Investments are subject to the following risks:

Interest Rate Risk: Interest rate risk is the risk the Alliance may face should interest rate variances affect the fair value of investments. The Alliance’s investment policy requires that investments be matched to anticipated cash flow requirements to the extent possible. Unless matched to a specified time period with regard to cash flows, investments in securities shall be five (5) years or less from the date of purchase providing that the average maturity of the portfolio shall not exceed the weighted average maturity limitation. This policy assists the Alliance in limiting its exposure to changes in the fair value of its investments.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Alliance’s investment policy states the Treasurer is empowered to invest in the security instruments authorized under Resolution 2013-12. The Alliance diversifies the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

Custodial Credit Risk: Custodial credit risk is the risk that in event of a failure of the counterparty, the Alliance would not be able to recover the value of its investments or collateral securities. The level of custodial credit risk relates to the level of insurance a financial institution will provide if financial difficulties were to occur that would affect Alliance deposits. The amount of collateral a financial institution will pledge as security for the deposits and the level of creditworthiness the financial institution has with regard to such security will determine the level of custodial credit risk that exists. The Alliance at year-end did not have any security lending or reverse repurchase agreements. Alliance deposits and investments are either insured or held by an agent in the Alliance’s name.

Investments in Clark County Investment Pool (CCIP) – The Alliance is a participant in the Clark County Investment Pool (CCIP), an external investment pool. The Alliance reports its investments in the Pool at the fair value amount, which is the same as the value of the Pool per share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from the RCW 36.29 which authorizes the County Treasurer to invest the funds of participants. The CCIP is an unrated fund.

Note 2 – Deposits & Investments (Continued)

The weighted average maturity of the CCIP is approximately one (1) year, with cash available to the Alliance on demand. The on-demand availability of these funds defines them as cash equivalent liquid investments. Cash investments are not subject to interest rate risk reporting requirement as defined by GASB 31. The CCIP is overseen by the Clark County Finance Committee and is audited annually by the Washington State Auditor’s Office and regulated by Washington RCWs.

Investments Measured at Fair Value – The Alliance measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

-) Level 1: Quoted prices in active markets for identical assets.
-) Level 2: These are quoted market prices for similar assets, quoted prices for identical or similar assets in markets that are not active, or other than quoted prices that are not observable.
-) Level 3: Unobservable inputs for an asset.

At December 31, 2017, the Alliance had the following investments with recurring fair value measurements:

Investment by Fair Value Level	Total	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Clark County Investment Pool	\$ 6,558,194	\$ 6,558,194		
Total Investments by Fair Value Level	\$ 6,558,194	\$ 6,558,194	\$ -	\$ -

Note 5 – Long-Term Liabilities (Continued)

Loans – The State of Washington has a low-cost financing program that allows public entities in the state to finance public works (i.e. collection transmission facilities). This program is administered by the State of Washington Public Works Trust Fund (PWTF) Board. Six of these loans have been transferred to the Alliance from the District and the City of Battle Ground. The loans from the state PWTF will be repaid over a period not to exceed 20 years at the stated interest rates. The loans totaling \$34,000,000 were used to fund construction on the Salmon Creek Wastewater Treatment Plant and capacity expansion.

The following is a schedule of PWTF loans containing a description of each loan, its use, and outstanding balance as of December 31, 2017:

	Loan Number	Notice of Completion	Maturity Date	Approved Loan Amount	Balance	Interest Rate
Salmon Creek Treatment Plant - Preconstruction (Phase IV)	PW-03-691-PRE-107	2003	7/1/2023	1,000,000	\$ 315,789	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PW-04-691-033	2004	7/1/2024	10,000,000	3,757,052	0.5%
Salmon Creek Treatment Plant - Preconstruction (Phase IV)	PW-05-691-PRE-116	2005	7/1/2025	1,000,000	421,053	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PC-08-951-009	2008	7/1/2028	8,000,000	4,631,579	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PW-05-691-003	2005	6/1/2025	10,000,000	4,410,733	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PW-06-962-005	2006	6/1/2026	\$ 4,000,000	1,900,000	0.5%
					<u>\$ 15,436,206</u>	

In 2017, the Alliance paid \$1,911,798 (\$1,825,490 principal and \$86,308 interest) on PWTF loans. The annual debt service requirements for the PWTF loans payable are as follows:

Year	Principal	Interest	Total Payments
2018	1,825,490	77,181	1,902,671
2019	1,825,490	68,054	1,893,544
2020	1,825,490	58,926	1,884,416
2021	1,825,490	49,796	1,875,286
2022	1,825,490	40,672	1,866,162
2023-2027	5,887,703	79,096	5,966,799
2028	421,053	2,105	423,158
Total	<u>\$ 15,436,206</u>	<u>\$ 375,830</u>	<u>\$ 15,812,036</u>

Note 5 – Long-Term Liabilities (Continued)

In 2006, the District was granted a \$1,000,000 Washington State Revolving Fund (SRF) loan which was fully drawn and expended in 2007 on construction at the Salmon Creek Treatment Plant. This loan was transferred to the Alliance on January 1, 2015. Also transferred to the Alliance on that date was an SRF loan from the City of Ridgefield, fully drawn in 2002 for \$2,972,860 at the City’s treatment plant upgrade.

The following is a schedule of SRF loans containing a description of each loan, its use, and outstanding balance as of December 31, 2017:

	Loan Number	Notice of Completion	Maturity Date	Approved Loan Amount	Balance	Interest Rate
Salmon Creek Treatment Plant - Construction (Phase IV)	L0700014	March 2007	1/1/2027	\$ 1,000,000	\$ 526,450	2.6%
Ridgefield Treatment Plant Upgrade	L9800042	November 2002	1/1/2022	2,972,860	914,082	4.4%
					<u>1,440,532</u>	

Debt service on SRF loans in 2017 was \$325,159 (\$256,331 principal and \$68,828 interest). The annual debt service requirements for these SRF loans payable are as follows:

Year	State Revolving Fund						
	Salmon Creek Treatment Plant Construction		Ridgefield Treatment Plant Upgrade		Total		Total Payments
	Principal	Interest	Principal	Interest	Principal	Interest	
2018	\$ 26,131	\$ 6,881	\$ 187,947	\$ 38,175	\$ 214,078	\$ 45,056	\$ 259,134
2019	53,292	12,733	196,307	29,814	249,599	42,547	292,146
2020	54,694	11,331	205,040	21,082	259,734	32,413	292,147
2021	56,133	9,892	214,161	11,961	270,294	21,853	292,147
2022	57,610	8,415	110,627	2,434	168,237	10,849	179,086
2023-2027	278,590	18,522	-	-	278,590	18,522	297,112
Total	<u>\$526,450</u>	<u>\$ 67,774</u>	<u>\$ 914,082</u>	<u>\$103,466</u>	<u>\$1,440,532</u>	<u>\$171,240</u>	<u>\$ 1,611,772</u>

Changes in long-term liabilities as a summary for the year ended December 31, 2017:

	Balance Jan. 1, 2017	Additions	Reductions	Balance Dec. 31, 2017	Due Within One Year
Loans payable	18,958,559	-	2,081,821	16,876,738	2,039,568
Revenue bonds payable	11,185,000	-	795,000	10,390,000	1,195,000
Total long-term liabilities	<u>\$ 30,143,559</u>	<u>\$ -</u>	<u>\$ 2,876,821</u>	<u>\$ 27,266,738</u>	<u>\$ 3,234,568</u>

Note 6 – Related Party Transactions

Discovery Clean Water Alliance and its Member Agencies - The Alliance has four Member agencies, the County, the District, Battle Ground and Ridgefield, each providing one elected representative for the Board of Directors. In 2017, two of the Member agencies, the District and Battle Ground, paid monthly Regional Service Charges to the Alliance. Regional Service Charges paid in 2017 funded Alliance wastewater treatment operations. These Regional Service Charges were based on the 2017-2018 biennial budget, where budgeted revenues equal expenditures for the two-year period.

The Alliance has contracted with the District to perform Administrative Lead functions for the Alliance. Through the Administrative Lead Agreement, the Alliance has been incorporated in the State of Washington as a new municipal entity, registered with the Internal Revenue Service and Washington State Department of Revenue, and has had debt, investment and financial policies adopted, as well as the preparation and adoption of the Alliance’s 2017-2018 biennial budgets and Operator Agreements between the Alliance and County, and the Alliance and Ridgefield.

During 2017 the Alliance received, by Member, the following in Regional Service Charges:

	<u>2017</u>
Clark Regional Wastewater District	\$ 8,516,033
City of Battle Ground	<u>2,590,409</u>
Total Regional Service Charges	<u>\$ 11,106,442</u>

The Alliance was billed \$595,595 in 2017 from the District. This amount represents \$327,040 for Administrative Lead services (staff time) provided, as well as expenses of \$268,555 for professional consulting, IT support and various utilities expenses incurred by the District on behalf of the Alliance.

The Alliance contracts with two of its Members for treatment plant operations services. In 2017, the Alliance was billed \$3,781,440 by Clark County and \$732,298 by Ridgefield as contract Operators.

The County, the District, Battle Ground and Ridgefield all last received financial and accountability audits from the Washington State Auditor’s Office for the fiscal year ended December 31, 2016.

More information about the Members can be found at the following websites: the County at <http://www.clark.wa.gov>, the District at <http://www.crwwd.com>, Battle Ground at <http://www.cityofbg.org> and Ridgefield at <http://www.ridgefieldwa.us>.

Note 7 – Construction and Other Significant Commitments

Capital Projects – The Alliance has construction commitments resulting from active consultant and construction projects, including restoration and replacement projects, as of December 31, 2017 exceeding \$100,000 as follows:

<u>Project</u>	<u>Total Awarded Contract Commitment</u>	<u>Spent to Date</u>	<u>Remaining on Contract</u>
Regional Biofilter	\$ 1,186,390	\$ 1,026,258	\$ 160,132
Salmon Creek Treatment Plant PLC Replacement	1,586,017	1,147,053	438,964
Salmon Creek Treatment Plant SBT Recovery	494,364	221,819	272,545
Salmon Creek Treatment Plant Phase 5A	2,411,265	1,999,355	411,910
Salmon Creek Treatment Plant Phase 5B	240,392	214,148	26,244
	<u>\$ 5,918,428</u>	<u>\$ 4,608,633</u>	<u>\$ 1,309,795</u>

There are no other significant commitments as of December 31, 2017.

Note 8 – Other Disclosures

In 2017, there was an overflow of a Sludge Blend Tank at the Salmon Creek Treatment Plant, a Regional Asset owned by the Alliance. The overflow is an event that is covered by insurance through the Water and Sewer Risk Management Pool to the extent that costs for repairs exceed the \$25,000 member deductible. Total costs related to the overflow are expected to be approximately \$500,000, of which about \$250,000 was spent as of year-end. The Water and Sewer Risk Management Pool has recompensed the Alliance \$250,000, with the remainder to be paid out in 2018. The insurance reimbursement and 2017 project expenses are reported net on the Statement of Revenues, Expenses and Changes in Fund Net Position.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov